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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets rallied last week, with indexes coming within striking distance of new all-time highs, as trade tensions abated, and global central banks prepared to provide a new round of monetary stimulus.

a) **Dow Jones +1.65%, MTD +3.20%, YTD +18.83** b) **S&P 500 +1.02%, MTD +2.87%, YTD +21.73%**
c) **Russell 2000 +4.90%, MTD +5.65%, YTD +18.17%**

Drivers: I) **China** released a statement last week stating it will **exempt** some U.S. **agricultural products** such as soybeans and pork **from additional tariffs**. This move by China was the most recent move to ease trade tensions with the U.S. **President Trump** in turn, announced a **delay of new tariffs** on China imports that were to take effect on **October 1 to October 15**, essentially till after the scheduled trade talks taking place in early October.

II) The **JOLTs report** showed **job openings edged lower** in an indication that the tightness in the labor market is easing. Job openings totaled 7.217 million in July for the second lowest level since May last year. This is down 0.4% from June which has been revised sharply lower from an initial 7.348 million to 7.248 million for the third lowest total since May last year. This trend **supports the doves at the Fed** and their desire to cut rates.

III) The **CPI report** showed core inflation jumped by **a higher than expected 0.3%** in August, which was the third consecutive 0.3% reading and the longest streak of the expansion. The **core's 2.4% year on year** increase is higher by 0.1%, which was **higher than projected** and an expansion high. This rise in inflation should temper the doves at the Fed and lowered the chances for an outsized rate cut of 50 basis points.

IV) **Consumer sentiment rebounded** in September to **92.0,** which is up **2.2 points from August,** but remains 8 points lower than its May high. The report highlights consumers remain very concerned about tariffs, but there was improvement in September with a 1.6-point gain for the current conditions' component to 106.9 and a 2.5-point rise for expectations to 82.4. Inflation expectations are mixed with the year-ahead outlook up 0.1% to 2.8%.

V) **Equities in September are higher with Small-Cap, Value, Energy and Financials leading equity price performance. The laggards for the month are Large-Cap, Growth and REITs.**

Capitalization: **Large Caps +2.75%** (YTD +21.73%), Mid-Caps +2.84% (YTD +22.97%) and **Small Caps +5.65%** (YTD +18.17). **Style: Value** +**6.93%** (YTD +18.72%) and **Growth +3.19%** (YTD +18.52%). **Industry Groups:** Information Technology +2.23% (YTD 31.91%), Technology +2.04% (YTD +31.88%), **REITs -1.67%** (YTD +26.20%), Consumer Discretionary +3.11% (YTD +25.53%), Industrials +4.75% (YTD +24.47%), Communication Services +3.22% (YTD +21.91%), Consumer Staples +0.52% (YTD +21.79%), **Financials +5.93%** (YTD +20.94%), Utilities +0.57% (YTD +20.76%), Materials +4.29% (YTD +18.31%), **Energy +6.25%** (YTD +8.42%) and Healthcare +0.96% (YTD +6.75).

EUROPEAN EQUITIES

The MSCI Europe index rose last week by +1.52% as the ECB cut its deposit rate and re-initiated an open-ended bond buying program to boost a sinking European economy.

Drivers: I) The **ECB lowed the deposit rate** by **10 basis points** to a new record low of minus 0.50%. At the same time, the central bank announced a two-tier system for reserve remuneration in which part of banks' holdings of excess liquidity will be exempt from the negative deposit facility rate. The ECB also **reopened** its **asset purchase program** at a rather modest **€20 billion a month** from 1st November for as long as necessary.

II) **Euro-zone industrial production** did not rebound as expected from July, as **output fell by 0.4% in August**. This was the indicator's fourth decline in the last five months. Despite strongly positive base effects, annual growth remained deep in negative territory at minus 2.0%, up 0.4% from last time. The latest monthly drop was caused by declines in non-durable consumer goods (0.8%), energy (0.7%) and intermediates (minus 0.3%) which lost ground for a fifth straight month.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was higher by +1.52% for the week (MTD +3.99%, YTD +15.12%).**

ASIAN EQUITIES

Asian equity markets rallied on the week as U.S./China trade tensions receded, as hopes for a trade deal increased after the U.S. and China made temporary tariff concessions. The Dow Jones Asia Index rose by +3.00% for the week, (MTD +5.35%, YTD +3.89%).

Drivers: I) Last Thursday, the Wall Street Journal reported that **China** was attempting to **narrow the scope of upcoming trade negotiations**, in hopes of resolving a few important issues and breaking the now two-year impasse. President Trump, in an attempt to move talks forward, put off tariff hikes on $250 billion in Chinese goods for two weeks, while China exempted more than a dozen U.S. products from new tariff hikes of its own.

II) **China's consumer price** index **rose 2.8% year on year** in August, unchanged from July, its highest reading since February 2018 and above the consensus forecast of 2.6%. The index rose 0.7 % on the month after advancing 0.4% previously. Food prices rose 10.0% annually in August, jumping higher from 9.1% in July. **Food price inflation has increased** for the past five months in a row and is now at its highest level since 2011, largely reflecting the impact of ongoing **disruptions to pork supply.**

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was higher at +3.72% (MTD +6.20%, YTD +11.19%), the Hang Seng Index rose by +2.67% (MTD +6.59%, YTD +5.94%) and the Shanghai Composite advanced by +1.05% (MTD +5.02%, YTD +21.55%).**

FIXED INCOME

Treasury yields jumped significantly last week as better than expected U.S. economic data, and new stimulus measures from the ECB improved the near-term outlook for a revival in global growth.

Performance: I) **The 10-year Treasury yield was higher last week ending at 1.889% up from 1.556%. The 30-year yield advanced last week finishing at 2.370% a up from 2.030%.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index was lower -0.99% last week, MTD -1.15% and YTD +7.70%. The Bloomberg Barclays US MBS TR dropped by -0.46% last week, MTD -0.45% and YTD +5.05%. The Bloomberg Barclay's US Corporate HY Index was higher by +0.19%, MTD +0.46% and YTD +11.51%.**

COMMODITIES

The DJ Commodity Index was higher last week rising by +1.15% last week and is positive month to date +2.49% (YTD +6.82%). Commodity prices rose last week as agriculture products rallied on easing U.S./China trade tensions, and central bank stimulus improved the outlook for industrial metals.

Performance: I) The **price of oil** declined last week **by -3.37%** down to $54.82 and has fallen month to date in September by -0.61% (YTD +20.72%). Oil prices were sharply lower on the week due to a rise in global inventories.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **was lower by -0.15** ending at 97.86 for the week (MTD -0.96%, YTD +1.75%). The USD was lower last week on declining trade tensions between the U.S. and China, and on expectations of interest rate cuts from the Fed in the coming week.

III) **Gold was lower last week by -1.27%** as the lessening of U.S./China trade concerns sent interest rates higher, and investors flocked back into risk assets. **Gold was lower by -1.27%** last week, declining from $1515.0 to $1495.7 (MTD -2.19%, YTD +16.73%).

HEDGE FUNDS

Hedge fund returns in September are mostly higher for the month with core strategies Equity Hedge, Event Driven, Relative Value and Multi-Strategy in positive territory. Macro is lower on the month.

Performance:

I) The HFRX Global Hedge Fund Index is higher at +0.12% MTD and up +5.55% YTD.
II) Equity Hedge has advanced by +0.86% MTD and is up +7.84% YTD.
III) Event Driven is higher MTD +0.59% and is higher YTD +3.80%.
IV) Macro/CTA has fallen by -1.90% MTD and is up +4.19% YTD.
V) Relative Value Arbitrage is higher by +0.13% and is up +4.66% YTD.
VI) Multi-Strategy is up MTD at +0.09% and is higher by +4.34% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

The past week saw a **debasing of U.S./China trade tensions** which propelled the **S&P 500** to **within five points** of its **all time high of 3025**. Specifically, China exempted $1.6B of US imports from the new 25% tariffs. In turn, the U.S. postponed the imposition of tariffs on $250 billion on Chinese goods from October 1 to the 15th. Trade talks between the two countries are set to resume in mid-October. Also, **supporting equity markets** was the spate of **positive economic data** which exceeded expectations, including **Jobless Claims, Retail Sales and Consumer Sentiment**. **Market sentiment turned upbeat**, with investors believing **economic growth** may now **re-accelerate.** This **prompted** one of the **largest shifts** in investor preferences, **as growth, defensive and momentum stocks were sold** in **favo**r of **economically sensitive value, energy, industrial and financial stocks**. Citigroup research measured this shift in investor taste, particularly from growth/momentum to value, as a four-standard deviation event. It will be interesting to see if this trend persists, as growth has so greatly outperformed and has become stretched in valuation versus value stocks.

As we enter **next week's trading sessions**, the markets will be anxiously awaiting the rate decision and outlook from the **FOMC meeting**. Geo-politics and trade will take a backseat, as expectations call for a **0.25% rate cut** which stands at a **98.0% probability** according to the Fed Fund futures. Of equal importance, will be the **forward guidance** from the Fed in-light of the **strong equity market rally** we have seen over the past three weeks, and the **uptick in core CPI** last week to 2.4% annualized rate.

In turning to **next week's economic calendar**, we will get releases on housing and industrial production, but investors will be fixated on the outcome of the FOMC meeting. But we start off on **Tuesday** with **U.S. Industrial Production** for August, which hopefully will **rebound** from the 0.2% decline seen in July due to a decline in mining. Expectations call for an **increase of 0.1%** for both Industrial Production and Manufacturing. The **Housing Market Index** also out on Tuesday hit its highest level of the year in August at 66. As current home sales and traffic showing strength, the consensus estimate for September is **steady strength at 66**.

We start off Wednesday with **Housing Starts**, which has been volatile along with permits on a month over month basis. Starts have been **trending higher** and are projected to come in at **1.250 million annual rate** which exceeds July's lower showing of 1.191 million. The consensus for permits is 1.300 million versus 1.316 million in July. On Wednesday afternoon, a **25-basis point** rate **decrease** is expected from the **FOMC**, after it cut rates in July by 25 basis points due to slowing global growth and growing trade tensions. Market are also predicting that the Fed's **quarterly forecast** will call for at least **one more rate cut in 2019**.

Existing House Sales out on Thursday, rose strongly in July to a better than expected 5.420 million annual rate, which pushed the year on year rate into positive territory at 0.6%. The August outlook calls for a **slight decline** to **5.375 million**. Finishing the week is the August index of **Leading Economic Indicators**, which is estimated to have **increased by 0.1%.** This is a decline from the higher than expected reading of 0.5% seen in July. Continued weakness in manufacturing has been a drag to the index.

Data Source: Haver Economics