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INVESTMENT COMMITTEE MARKET COMMENTARY

SEPTEMBER 2, 2019 www.clearbrookglobal.com

U.S. EQUITIES

U.S. equity markets rallied for the week, as the U.S. and China both reduced their hardline trade rhetoric, letting cooler heads prevail "to create the necessary conditions for continual negotiations".

a) **Dow Jones +3.14%, MTD -1.32%, YTD +15.14** b) **S&P 500 +2.83%, MTD -1.58%, YTD +18.34%**
c) **Russell 2000 +2.46%, MTD -4.94%, YTD +11.85%**

Drivers: I) **Chinese and U.S.** trade negotiating **teams** were maintaining effective communication, China's Foreign Ministry reported last Friday. The comment was the latest sign that the U.S. and China will restart trade negotiations as both sides **discussed the next round of face to face talks** in September. With a new set of U.S. tariffs on Chinese imports set to begin on Sunday, September 1, China would like to see these increases delayed.

II) **Consumer spending remained strong**, rising an **outsized 0.6%** in July, hitting the high end of the Street consensus range. All components for spending were solid led by a 1.1% rise for nondurable goods, and the 0.6% and 0.5% monthly gains for durable goods and services. These represent a **brisk start** for **third-quarter consumer spending** which in the second quarter dominated GDP data with **4.7% annual** inflation-adjusted **growth**.

III) As expected, there were a **0.2% monthly increases** for both overall **PCE prices and core PCE prices** (ex-food ex-energy). Coming in below expectations, the **year-on-year core** rate was unchanged at **1.6%.** This reading is the single most important inflation index regarding the Fed's 2.0% target, gives the FOMC doves ammunition going into September's meeting. Overall **PCE prices** edged 1 tenth higher to a still very **subdued 1.4%.**

IV) The **Conference Board consumer confidence** report in August retained most of July's gain. Despite stock market volatility and escalating trade tensions, the report easily **beat high-end expectations** with a 135.1 reading.

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

Capitalization: **Large Caps -1.83%** (YTD +18.48%), Mid-Caps -2.85% (YTD +19.57%) and **Small Caps -4.94%** (YTD +11.85). **Style: Value -5.30%** (YTD +11.02%) and **Growth -3.32%** (YTD +14.86%). **Industry Groups:** Technology -1.50% (YTD +29.24%), Information Technology -1.66% (YTD 29.04%), **REITs +4.85%** (YTD +28.35%), Consumer Discretionary -0.87% (YTD +21.74%), Consumer Staples +2.13% (YTD +21.15%), **Utilities +5.12%** (YTD +20.08%), Industrials -2.64% (YTD +18.83%), Communication Services -2.64% (YTD +18.10%), **Financials -4.85%** (YTD +14.17%), Materials -2.76% (YTD +13.44%), Healthcare -0.51% (YTD +5.74) and **Energy -8.12%** (YTD +2.04%).

EUROPEAN EQUITIES

The MSCI Europe index rose last week by +1.35% on moderating trade tensions between the U.S. and China, and expectations of a fiscal stimulus package being implemented by Germany.

Drivers: I) **German Finance Minister Olaf Scholz** suggested **Germany could allocate 50 billion euros** ($55 billion) of extra spending in an economic crisis, indicating a specified **amount of stimulus** for the first time. Mr. Scholz signaled that any **action is not imminent**, but a domestic and global slowdown are increasing pressure on Chancellor Angela Merkel's government to consider suspending its balanced-budget policy. For the second quarter of 2019, the German economy contracted by 0.1%.

II) The **Eurozone Flash inflation rate** was unchanged. The **1.0% annual rate** matched both July's final showing (flash 1.0%) and market expectations. The annual rate sank to the **lowest level** since **November 2016**. The core rates were similarly steady. Thus, the reading which excludes energy, food, alcohol and tobacco was flat and lower than expected at just 0.9% while the ex-energy and unprocessed food inflation was flat at 1.1%.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was higher by +1.35% for the week (MTD -2.52%, YTD +10.70%).**

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ASIAN EQUITIES

Asian equity markets rallied on the week, as China's Commerce Ministry stated China "would not immediately respond to the Trump administrations latest tariff hike". The spokesman also said both sides were discussing a new round of trade talks. The Dow Jones Asia Index rose by +0.24% for the week, (MTD -5.51%, YTD -1.39%).

Drivers: I) The **China** Federation of Logistics and Purchasing (CFLP) **Manufacturing Purchasing Managers Index** (PMI) is the monthly survey of about 800 purchasing managers that is conducted jointly by CFLP and National Bureau of Statistics (NBS). To be released this weekend, the CFLP manufacturing PMI for August, is expected see a **fourth straight month of contract** at a consensus **49.6**.

II) Initial data for **July** showed that **Japan's industrial production** index **rose 1.3%** for the month (seasonally adjusted) after falling a revised 3.3% in June, **above the consensus forecast** for an increase of **0.3%.** Stronger headline industrial production reflected increases in the output of motor vehicles, partly offset by declines in the output of electrical machinery and petroleum and coal products. From a year-on-year perspective, the index rose 0.7% in July after falling a revised 3.8% the previous month.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was higher at +0.04% (MTD -3.72%, YTD +4.70%), the Hang Seng Index fell by -1.78% (MTD -7.59%, YTD -0.62%) and the Shanghai Composite declined by -0.39% (MTD -1.58%, YTD +15.73%).**

FIXED INCOME

Treasury yields were lower last week as data released on Friday showed U.S. inflation remained muted. The 30-year Treasury finished below 2.00% at 1.96%, while the 10-year Treasury ended August with a 53bps decline in yield, the largest one-month rate drop since August 2011.

Performance: I) **The 10-year Treasury yield was lower last week ending at 1.500% down from 1.538%. The 30-year yield declined last week finishing at 1.960% a drop from 2.030%.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index rose +0.21% last week, MTD +2.59% and YTD +9.10%. The Bloomberg Barclays US MBS TR rose by +0.23% last week, MTD +0.89% and YTD +5.53%. The Bloomberg Barclay's US Corporate HY Index was higher by +0.49%, MTD +0.40% and YTD +11.00%.**

COMMODITIES

The DJ Commodity Index was higher last week rising by +1.16% last week and is negative month to date -2.66% (YTD +3.25%). Commodity prices were higher, as oil rallied on a drop-in U.S. inventories and investors rotated from gold to other metals including silver (best monthly gain since June 2016), and palladium.

Performance: I) The **price of oil** climbed higher last week **by +2.20%** up to $55.16 and has fallen month to date in August by -5.83% (YTD +21.47%). Oil prices rose last week on a drop-in US inventory levels, and cautious optimism on U.S./China trade.

II) The **ICE USD Index**, a gauge of the U.S. dollar's movement against six other major currencies, **was higher by +1.59** ending at 98.81 for the week (MTD +0.29%, YTD +2.74%). The USD jumped as economic data out of Europe sent the euro to a two-year low against the US dollar.

III) **Gold was lower last week by -0.50%** as U.S./China trade tensions abated. **Gold was lower by -0.50%** last week declining from $1536.9 to $1529.2 (MTD +6.35%, YTD +19.34%).

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HEDGE FUNDS

Hedge fund returns in August are mixed for the month with core strategies Equity Hedge, Relative Value and Multi-Strategy in negative territory. Event Driven and Macro are higher on the month.

Performance:

I) The HFRX Global Hedge Fund Index is higher at +0.23% MTD and up +5.27% YTD.
II) Equity Hedge has declined by -0.52% MTD and is up +6.55% YTD.
III) Event Driven is lower MTD +0.50% and is higher YTD +3.18%.
IV) Macro/CTA has risen by +1.51% MTD and is up +6.03% YTD.
V) Relative Value Arbitrage is lower by -0.09% and is up +4.44% YTD.
VI) Multi-Strategy is down MTD at -0.05% and is higher by +4.18% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

The **past week** was filled with **economic and political events** that **influenced** the direction of **global equity prices** and interest rates. The week began with **heightened trade tensions** as the **U.S.** prepared to implement new and raise existing **tariffs**, on a combined **$550 billion of China imports**. **China** in retaliation, announced they would be imposing **tariffs** on **$75 billion worth of U.S. imports**, including oil products. As the week progressed, the potential negative economic effects of a full-fledged trade war seemed to hit home in both countries. President Trump toned down his hardline rhetoric, and **China's Foreign Ministry** released a **statement calling for calm** and a resumption of trade talks. In the background, UK Prime Minister Boris Johnson asked the Queen of England to shut down Parliament in mid-September for six weeks, in an effort to stifle any attempt by the Members of Parliament (MPs) to block a hard "Brexit", should the UK's desire to further negotiate a revised "Brexit" deal fail. The trade and "Brexit" issues will not be resolved for weeks, so expect market volatility to remain elevated.

As we enter **next week's trading sessions**, the **U.S. earnings season** is coming to an end, as 99% (493) of S&P 500 companies have reported a blended **drop in earnings of -0.4%.** The actual earnings drop beat the **initial** June 30th **estimate of -2.7%**, and revenues were positive growing at a 4.0%, though it was the lowest growth rate since Q3 2016 (2.7%). The Q2 earnings has the **S&P 500** trading at a **forward P/E of 16.6**, just slightly above the **five-year average of 16.5**. For the **remainder of 2019**, earnings are projected to fall by -3.5% in Q3 while a revival is expected for Q4 at an increase of 3.5%. Year over year, S&P 500 **earnings**, if projections hold true, will **rise by 1.5% and revenues will climb by 4.4%**. Will these earnings results be enough to entice investors to push equity prices higher, as we now have over $15 trillion of global debt at negative yields, and the drumbeat of TINA (there is not other alternative) is beginning to pick up?

In turning to **next week's economic calendar,** the important data releases will be centered around the health of the **U.S. economy and employment**. On **Tuesday**, we begin with the **PMI Manufacturing Index** where is expectation is for no change to the August flash. The August report came in at **49.9**, which was the worst showing in 10 years.

The **PMI services index,** out on **Thursday**, declined in the **August** flash and are expected to post a final **50.9** for the month. The consensus for the **composite**, despite greater weakness in manufacturing, is **also 50.9**. Also, on Thursday we get a reading on **U.S. Factory Orders**. The advance headline of the durables side of the July factory orders report rose 2.1% with ex-transpiration orders decreasing 0.4% and core capital goods orders increasing 0.4%. Street pundits see factory orders in July, which will include initial data on non-durable goods, **rising 1.0%.**

Closing out the week on **Friday** will be the release of the **U.S. Non-farm payroll** results. August nonfarm payrolls are expected to be solid and steady, with the consensus **estimate of 158,000 versus a 164,000** increase in **July**. The **unemployment rate** is projected to remain **unchanged at 3.7%** with average hourly earnings, which did move higher in July, to remain consistent with a monthly increase of 0.3%.

Data Source: Haver Economics

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