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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets declined last week as investors moved beyond the FOMC meeting and trade concerns arose as trade officials from China cancelled a visit to farms in Montana and Nebraska planned as part of on-going trade negotiations.

a) **Dow Jones -1.04%, MTD +2.12%, YTD +17.58** b) **S&P 500 -0.49%, MTD +2.36%, YTD +21.13%**
c) **Russell 2000 -1.14%, MTD +4.44%, YTD +16.81%**

Drivers: I) **China agricultural officials canceled** their **trip** to visit **U.S. farmers** as the officials returned to China sooner than expected. The trip was planned during low level trade talks held in Washington, DC last week, which served as a precursor to high level trade talks planned for early October. President Trump stated last week he wanted a complete trade deal with China, and not just an agreement to buy agricultural goods.

II) **U.S. Industrial production** in August showed **broad strength**, which should ease Fed concerns over weakness in manufacturing. Industrial production topped out the Street consensus range with a **0.6% increase** which is the strongest post for the year. The increase was above the 0.5% monthly estimate and is the third gain in four months. This a turnaround from the four straight monthly declines that opened the year, including -0.9% in April.

III) As fully expected by global markets, the **Federal Reserve cut its policy rate** by an incremental **25 basis points** to a range of 1.75% to 2.00% with an implied midpoint of 1.875%. The vote was a lopsided seven to three majority. The **economic assessment** was essentially unchanged with the labor market described as strong and economic activity as moderate, but **business spending was downgraded** due to trade concerns.

IV) **Existing home sales** continued to **move higher**, at a **5.490 million annual pace** in August that beat the Street consensus range and edged out February as the best showing for the year. The median price at $278,200 shows a rise of 4.7% when compared to last August. Supply, however, slipped in the month to 1.860 million units on the market and relative to sales is at 4.1 months which is down from 4.2 and 4.4 months in July and June.

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 +2.31%** (YTD +21.22%), Mid-Caps +2.56% (YTD +22.63%) and **Small Caps +4.44%** (YTD +16.81). **Style: Value +5.36%** (YTD +16.97%) and **Growth +2.49%** (YTD +17.72%). **Industry Groups:** Information Technology +1.45% (YTD 30.92%), Technology +1.28% (YTD +30.89%), **REITs +0.40%** (YTD +28.86%), Utilities +2.80% (YTD +23.45%), Consumer Discretionary +0.95% (YTD +22.90%), Industrials +3.21% (YTD +22.64%), Consumer Staples +0.01% (YTD +21.17%), Communication Services +1.95% (YTD +20.40%), **Financials +4.90%** (YTD +19.76%), Materials +3.40% (YTD +17.31%), **Energy +7.40%** (YTD +9.59%) and Healthcare +1.95% (YTD +7.80).

EUROPEAN EQUITIES

The MSCI Europe index fell last week by -0.35% due to concerns over the U.S./China trade talks and potential long-term effects on the price of oil caused by the attack on Saudi Arabia's oil facilitates.

Drivers: I) The **German ZEW Survey** of **current conditions fell 6.4 points,** its fourth straight decline and eleventh drop over the last twelve months. At -19.9, the index was 92.5 points below last year's August reading and is the lowest since May 2010. Expectations though improved by a sizeable 21.6-point jump to -22.5. Despite being the best level since December 2014, September's post was still among the **weakest** seen in more than **seven years**.

II) **EU consumer confidence improved slightly** in September. At minus 6.5, the flash reading was up 0.6 points versus its final August. Overall though, household sentiment has remained mostly flat since the beginning of the year and the index has held within a relatively tight -7.4 to -6.5 range. This has coincided with a moderately rising trend in retail sales which have climbed a modest 1.1% (ex-autos) since January.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was lower by -0.35% for the week (MTD +3.63%, YTD +14.72%).**

ASIAN EQUITIES

Asian equity markets declined last week as market participants processed the latest interest rate cut from the U.S. Fed, and investors await progress from the resumed trade negotiations between the US and China. The Dow Jones Asia Index dropped by -1.60% for the week, (MTD +3.66%, YTD +2.21%).

Drivers: I) **China's residential property prices increased by 8.8%** on the year in **August**, based on a calculation using officially published data. This is **down from the 9.7%** increase recorded in **July** using the same calculation and is the third consecutive decline in house price growth.

II) **Japan's All Industry Index rose 0.2%** in July, rebounding from a decline of 0.7% in June. The index advanced 1.3% on the year after falling 0.4% previously. The **improvement** in month-on-month growth in the headline index in July was driven by **the industrial production index**, which accounts for around 21% of the total index. This **component rose 1.3%** for the month after falling 3.4% previously. The index of construction industry activity, which accounts for around 6% of the total index, fell 1.4 percent on the month after declining 0.6%.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was higher at +0.41% (MTD +6.64% YTD +11.65%), the Hang Seng Index fell by -3.47% (MTD +2.89%, YTD +2.26%) and the Shanghai Composite declined by -0.82% (MTD +4.16%, YTD +20.55%).**

FIXED INCOME

Treasury yields declined last week as the China trade delegation cancelled a trip to visit U.S. farmers in middle America, engendering trade tension fears.

Performance: I) **The 10-year Treasury yield was lower last week ending at 1.723% down from 1.889%. The 30-year yield declined last week finishing at 2.160 down from 2.370%.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index rose +0.88% last week, MTD -0.95% and YTD +8.07%. The Bloomberg Barclays US MBS TR advanced by +0.35% last week, MTD -0.10% and YTD +5.42%. The Bloomberg Barclay's US Corporate HY Index was higher by +0.23%, MTD +0.69% and YTD +11.77%.**

COMMODITIES

The DJ Commodity Index was higher last week rising by +0.88% last week and is positive month to date +3.37% (YTD +6.73%). Commodity prices advanced last week as oil climbed higher after the terrorist attack curbed Saudi Arabia's production, and hopes for progress in the U.S./China trade talks pushed industrial metals higher.

Performance: I) The **price of oil** jumped last week **by +5.96%** up to $58.09 and has risen month to date in September by +5.31% (YTD +27.92%). Oil prices saw their largest rise in over three months after the attacks on Saudi Arabia's oil fields last weekend.

II) The **ICE USD Index**, a gauge of the U.S. dollar's movement against six other major currencies, **was higher by +0.61** ending at 98.46 for the week (MTD -0.35%, YTD +2.38%). The USD rose as the FOMC after dropping rates in the U.S. by 0.25 bps was less certain as to when the next rate cut, if any, would take place.

III) **Gold rose last week by +1.91%** for the first weekly gain in about a month, as China's trade delegation cancelled a trip to visit U.S. farmers and President Trump ratcheted up economic sanctions on Iran. **Gold was higher by +1.91%** last week, rising from $1495.7 to $1524.4 (MTD -0.31%, YTD +18.97%).

HEDGE FUNDS

Hedge fund returns in September are primarily 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 +0.39% MTD and up +5.84% YTD.
II) Equity Hedge has advanced by +1.09% MTD and is up +8.09% YTD.
III) Event Driven is higher MTD +1.24% and is higher YTD +4.46%.
IV) Macro/CTA has fallen by -1.82% MTD and is up +4.27% YTD.
V) Relative Value Arbitrage is higher by +0.23% and is up +4.76% YTD.
VI) Multi-Strategy is up MTD at +0.19% and is higher by +4.44% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Markets stabilized towards week's end as the **FOMC** provided investors with the **0.25% basis point cut** they were expecting, and the **U.S. and China** were in a mode of **de-escalating** the trade war. The initial equity market reaction to Fed rate cut was negative, as investors expected the central bank to be more "dovish". But the Fed has done a good job at balancing U.S. monetary policy to sustain on-going economic growth. The **economic data** releases last week showed marked **improvements** in **industrial production and housing**, key components of the economy. This has led the Citigroup Economic Surprise index to turn positive in the U.S., as economic data releases are exceeding expectations. This should bode well for U.S. GDP growth for the remainder of 2019.

As we enter **next week's trading sessions**, with the FOMC meeting behind us, financial **market's** will be **influenced** by the **U.S./China trade talks** and continued **expectations of further rate cuts** from the Fed. A delegation of trade officials cancelled a planned meeting with U.S. farmers to discuss purchases of agricultural goods. The meeting with farmers in Nebraska and Montana were planned following low-level U.S./China talks in Washington last week. **Scheduled talks** involving high level **U.S. and China** trade delegations are still expected in **early October.** As to **interest rates**, **Fed Fund futures** are estimating a **43.8% and 48.0%** probability for an **additional 0.25% rate cut** in **October or December** respectively. It will be interesting to see how the probabilities change based on the pace and progress being made at the U.S./China trade talks. We expect financial markets to hover close to present levels for the week.

In turning to **next week's economic calendar**, a heavy schedule of releases will focus on industrial production and services and the consumer. We start off on **Monday** with the **Composite PMI index**, where we have seen over the past few months a slowing in growth for both manufacturing and services. The consensus for September's flash PMI composite, at 51.2, is split between a consensus for **services at 51.4 and a manufacturing at 50.1**. This is an **improvement from last month**'s posting of 50.9 for services and 49.9 for manufacturing.

The **consumer confidence index** retained its sharp gains in July despite the onslaught of trade uncertainty and market volatility seen in August. For September, the **Street consensus is 133.6 versus August's 135.1**. **New Home sales** out on Wednesday follows a couple of up and down months, but like Existing Home sales has been drifting higher. The **consensus** for August's annual new home rate is **665,000 versus 635,000 in July.** Following on Thursday is the **Pending Home sales** report which is trying to claw its way back up from a 2.5% drop in July, is expected to **rebound by 0.6% in August.**

A busy Friday starts off with **Durable Goods orders** which is projected to **decline by 1.2%,** after rising the past two months due to increases in civilian aircraft and motor vehicles orders. Ex-transportation orders are expected to rise a modest 0.2% in August. Following on Friday is the **U.S. Consumer Sentiment index** for September which is projected at **92.0** which would be **unchanged** from its initial reading.

The **Personal Consumption Expenditures Index** is expected to show incremental pressure for August, at 0.2 percent gains for both **core PCE prices and overall PCE prices** with **year-on-year rates seen at 1.8%** for the core and **1.5%** overall. For consumer spending, a 0.3% increase is the call with income expected to rise 0.4%.

Data Source: Haver Economics