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INVESTMENT COMMITTEE MARKET COMMENTARY

SEPTEMBER 30, 2019 www.clearbrookglobal.com

U.S. EQUITIES

US equity markets were lower last week as House Democrats opened an impeachment inquiry against President Trump, based on allegations he asked the President of the Ukraine to investigate Joe Biden.

a) **Dow Jones -0.43%, MTD +1.69%, YTD +17.08** b) **S&P 500 -0.98%, MTD +1.35%, +19.94%**
c) **Russell 2000 -2.45%, MTD +1.88%, YTD +13.95%**

Drivers: I) **House Speaker Nancy Pelosi** began an **impeachment inquiry against President Trump** last week. This action was prompted by a Trump phone call with Ukrainian President Voldomyr Zelensky on July 25. A supposed whistleblower with no direct first-hand information, alleged Trump asked for an investigation into the business dealings of Democratic presidential candidate Joe Biden's son, Hunter. Hunter Biden was paid $50,000 a month as a director on the board of Burisma Holdings, a gas company, with no previous experience in the field.

II) **New home sales trended higher** at a **713,000-annual rate** in August, comfortably beating the consensus range. Supporting the **strong reading** was a revision to July to a 666,000 rate, lifting the 3-month average to 703,000, the best showing since October 2007 and just before the subprime collapse. The median price solidly rose by a monthly 7.5% to $328,400. Year-on-year, the median rose from a mid-single-digit negative to +2.2%.

III) **Durable Goods Orders** in August rose by **a better than expected 0.2% overall** and plus 0.5% ex-transportation. But core capital goods orders (nondefense ex-air) fell 0.2% which missed the Street's consensus for no change and included a major downward revision to July which had been at up 0.4% but is now, like August, was unchanged. These two readings are not favorable indications for third-quarter business investment.

IV) Personal income and consumer spending corrected in August what were uneven readings in July, with income up 0.4% versus only a 0.1% July gain and with spending up only 0.1% in August following July's revised 0.5% rise. The monthly reading for the **PCE core** was **unexpectedly low** at only 0.1%, yet the **year-on-year** reading, up 0.1% from an upwardly revised July to **1.8%** in **August**. This shows as-expected progress toward the central bank's 2% goal.

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, Healthcare and Communication Services.**

Capitalization: **Large Caps +1.20%** (YTD +19.90%), Mid-Caps +1.44% (YTD +21.30%) and **Small Caps +1.88%** (YTD +13.95). **Style: Value +4.66%** (YTD +16.19%) and **Growth +0.68%** (YTD +15.64%). **Industry Groups:** Technology +0.45% (YTD +29.82%), Information Technology +0.57% (YTD 29.78%), REITs +0.73% (YTD +29.29%), Utilities +4.16% (YTD +25.08%), Industrials +2.79% (YTD +22.14%), Consumer Staples +1.21% (YTD +22.68%), Consumer Discretionary +0.30% (YTD +22.11%), **Financials +4.72%** (YTD +19.56%), **Communication Services -0.75%** (YTD +17.21%), Materials +2.27% (YTD +16.02%), **Energy +4.57%** (YTD +6.70%) and **Healthcare -1.08%** (YTD +4.60).

EUROPEAN EQUITIES

The MSCI Europe index fell last week by -0.81% due to geo-political concerns ranging from the U.S./China trade talks, the impeachment inquiry into President Trump and the never ending "Brexit" saga.

Drivers: I) The **Eurozone September PMI Composite Flash** for September, posted an unwelcomed **weak** finish to third quarter business activity. The flash composite output index came in at just **50.4**, quite a **drop** from its final **51.9 level in August** and fell well short of market expectations. This points to the slowest economic growth in over seventy-five months. The decline showed worsening conditions in both manufacturing and services.

II) **Eurozone Economic Sentiment** was **weaker than expected** in September, with a 101.7 reading which was 1.4 points short of its unrevised August reading and well below the market consensus. It was also the **worst showing since February 2015**. The overall decline was **led by industry** which was off by 3 points at -8.8. There were drops in retail trade (0.1 after 0.6) and construction (3.8 after 3.9) partially offset by a rise in services (9.5 after 9.2).
III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was lower by -0.81% for the week (MTD +2.79%, YTD +13.80%).**

ASIAN EQUITIES

Asian equity markets were lower last week as investors dealt with mixed signals regarding the U.S./China trade talks and rumors the Trump administration was seeking to curb U.S. capital investments in China. The Dow Jones Asia Index dropped by -1.02% for the week, (MTD +2.60%, YTD +1.17%).

Drivers: I) **China's industrial profits fell 1.7%** year-to-date in August, as they did in July. In **year-on-year** terms, **profits fell 2.0%** after advancing 2.6% previously. This is an important downward trend because profits are the income of an enterprise and a key factor that determines capital investment spending. When profits are strong, enterprises will be able to increase their capital spending. This could allow better growth prospects for an enterprise and is likely to increase its underlying value. When **profits decline** or grow at a slower pace, then **capital spending tends to decline** or weaken.

II) **Japan's PMI flash** estimate for **services in September fell to 52.8** from the final reading of 53.3 for August. If confirmed by final data early next month, this survey indicates that activity in the **services sector** remained **solid** in September, offsetting ongoing **weakness in the manufacturing sector**. Respondents in the services sector reported weaker growth in output, a fall in employment, and weaker sentiment about the outlook in September, but stronger growth in new orders and new export orders.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was lower at -0.18% (MTD +6.45%, YTD +11.45%), the Hang Seng Index fell by -1.91% (MTD +0.93%, YTD +0.31%) and the Shanghai Composite declined by -2.47% (MTD +1.59%, YTD +17.57%).**

FIXED INCOME

Treasury yields fell last week as the specter of the impeachment inquiry into President Trump and indications that the U.S. may seek to curb investments into China sent rates lower.

Performance: I) **The 10-year Treasury yield was lower last week ending at 1.683% down from 1.723%. The 30-year yield declined last week finishing at 2.130 down from 2.160%.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index rose +0.37% last week, MTD -0.58% and YTD +8.47%. The Bloomberg Barclays US MBS TR advanced by +0.09% last week, MTD -0.01% and YTD +5.51%. The Bloomberg Barclay's US Corporate HY Index was lower by -0.32%, MTD +0.37% and YTD +11.42%.**

COMMODITIES

The DJ Commodity Index was lower last week falling by -1.30% last week and is positive month to date +2.07% (YTD +5.39%). Commodity prices declined due to strength of the USD and the potential for reduced U.S. capital investments in China which would be a negative for global economic growth.

Performance: I) The **price of oil slumped** last week **by -3.29%** down to $56.18, but has risen month to date in September by +1.85% (YTD +23.71%). Oil prices dropped on rumors of a cease-fire between Saudi Arabia and Yemen and claims by Iranian President Hassan Rouhani that the U.S. had offered to lift all sanctions.

II) The **ICE USD Index**, a gauge of the U.S. dollar's movement against six other major currencies, **was higher by +0.68** ending at 99.13 for the week (MTD +0.32%, YTD +3.08%). The USD rallied as an impeachment inquiry was launched by House Democrats against President Trump, and US/China trade uncertainty persisted.

III) **Gold fell last week by -1.38%** as the strength of the U.S. dollar dulled interest in the precious metal, by hitting a new high for 2019. **Gold was lower by -1.38%** last week, declining from $1524.4 to $1503.3 (MTD -1.70%, YTD +17.32%).

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 +0.42% MTD and up +5.87% YTD.
II) Equity Hedge has advanced by +0.91% MTD and is up +7.89% YTD.
III) Event Driven is higher MTD +1.07% and is higher YTD +4.29%.
IV) Macro/CTA has fallen by -1.16% MTD and is up +4.97% YTD.
V) Relative Value Arbitrage is higher by +0.24% and is up +4.77% YTD.
VI) Multi-Strategy is up MTD at +0.23% and is higher by +4.48% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Last week's market action saw **political intrigue** more than **offset a string of positive economic data** releases. The U.S. saw **better than expects reports** in New Home Sales, Pending Home Sales, Durable Goods and the University of Michigan Consumer Confidence index. The positive economic data's lift to risk assets was quickly squashed by the start of an **impeachment inquiry by House Democrats**. The political theatre involves a July 2019 conversation between President Trump and the President of the Ukraine, and whether pressure was exerted by Trump to prompt an investigation by the Ukraine into the business dealings of presidential candidate Joe Biden and his son Hunter.

The **depth of the market decline** after the announcement of the inquiry was somewhat **muted**, as traders are **more concerned** whether the **impeachment** process will **derail a potential trade deal** between the **U.S. and China**. Will China see the impeachment inquiry as strengthening their negotiating position, or seek to delay talks till after the 2020 President election, believing the impeachment process could usher in a weaker counterparty to deal with?

As we enter **next week's trading sessions**, as we are two weeks away from Q3 earning season, the **markets** will be **looking forward** to the scheduled **October 10 and 11 trade talks between the U.S. and China**. Investors hope that the recent **goodwill gesture from China**, which provided **tariff waivers** to several **Chinese companies** to permit them to freely **purchase two to three million tons of soybeans**, will serve as a positive base from which to work from. The Chinese mentioned that they were looking forward to the upcoming talks and seek "more enthusiastic measures" towards a trade agreement.

In turning to **next week's economic calendar**, the emphasis will be on the state of the **U.S. industrial and manufacturing sector**, and the health of the US job market. On **Tuesday** we get a reading on the **U.S. Manufacturing PMI**, where September's flash is expected to be **unchanged at 51.0** and is projected to show further weakness in exports.

Reporting on **Thursday is the Services PMI** which is estimated to come in at **50.9** for September, a slightly slower showing due to expected weakness in new orders. **Factory orders** for August, also out on Thursday, posted an advanced headline increase of 0.2%, with ex-transportation orders rising 0.5%. The core capital goods orders fell by 0.2%. The Street consensus for August Factory Orders, which will include initial data on non-durable goods where lower oil prices are expected to be a drag, **fell 0.6%.**

Closing out the week on **Friday** is the **September Nonfarm Payrolls report**, where the consensus is projecting **jobs grew by 145,000** versus a lower than expected reading in **August of 130,000.** The **unemployment rate** is seen as **unchanged at 3.7%** with average hourly earnings, which have been moving higher including a 0.4% rise in August, continuing to uptick with a monthly increase of 0.3%. The **year-on-year rate for earnings** is expected to hold **steady** in September at **3.2%.**

Data Source: Haver Economics