# INVESTMENT COMMITTEE MARKET COMMENTARY

SEPTEMBER 9, 2019 www.clearbrookglobal.com

## U.S. EQUITIES

**U.S. equity markets were solidly higher last week as the soft jobs data essentially cemented a Fed rate cut later in September, and US/China trade officials set the stage for a new round of trade talks in early October.**

a) **Dow Jones +1.53%, MTD +1.53%, YTD +16.90** b) **S&P 500 +1.83%, MTD +1.83%, YTD +20.50%**
c) **Russell 2000 +0.71%, MTD +0.71%, YTD +12.64%**

**Drivers:** I) **U.S. nonfarm payrolls** showed the U.S. economy created **130,000 new jobs**, which was 20,000 below the low end of the Street consensus range. However, on the plus side, there was an **outsized 0.4% rise** in **average hourly earnings**, a result that is related to wage pressures tied to a narrowing supply of labor. Earnings have now posted four straight elevated readings, at 0.3% in July, June and May as well.

II) The initial estimates for the **labor participation rate** was seen falling 1 tenth to 62.9%. The actual report highlights a participation rate supports the risk of diminishing supply, **up a sharp 2 tenths to 63.2%**. The **unemployment rate** was **unchanged** in August, holding steady at **3.7%** which, however, is historically very low and is only exceeded by the 3.6% rates seen back in April and May.

III) The **ISM's non-manufacturing** index easily **beat** the **consensus estimate** of 54, by posting its best result since May of **56.4**. This reminds us that the U.S. economy remains solid, as new orders were strong, rising by over six points to 60.3. These orders were boosted by a rise in the August business activity index which climbed by eight points to 61.5. The fact that 16 out of 17 industries in the survey reported growth, underscores the economy's strength.

IV) The **ISM manufacturing index** in August **dropped below the expansion level** of 50, coming in at **49.1.** The weak showing may very well make a rate-cut at the September 17 and 18 FOMC a certainty. New orders fell well below 50, down 3.6 points at 47.2, with new export orders down nearly 5 points at a sub-par 43.3. Total backlog orders did improve but are still well into contraction at 47.4.

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

**Capitalization**: **Large Caps +1.76%** (YTD +20.56%), Mid-Caps +1.74% (YTD +21.65%) and **Small Caps +0.71%** (YTD +12.64). **Style: Value +1.88%** (YTD +13.12%) and **Growth +1.18%** (YTD +16.21%). **Industry Groups:** Technology +2.40% (YTD +32.34%), Information Technology +2.43% (YTD 32.17%), REITs +1.45% (YTD +30.21%), **Consumer Discretionary +2.63%** (YTD +24.95%), Consumer Staples +1.21% (YTD +22.62%), **Utilities +0.46%** (YTD +20.64%), Industrials +1.83% (YTD +21.00%), Communication Services +1.71% (YTD +20.12%), Financials +1.94% (YTD +16.39%), Materials +0.92% (YTD +14.49%), **Healthcare +0.67%** (YTD +6.44) and **Energy +2.65%** (YTD +4.75%).

## EUROPEAN EQUITIES

**The MSCI Europe index rose last week by +2.44% as U.S. and China trade negotiations seem back on track, and the British Parliament defeated PM Boris Johnson's efforts for a hard "Brexit".**

**Drivers:** I) The **"Brexit" saga** took another turn when U.K. Prime Minister, **Boris Johnson** suffered a **defeat** when legislators took control of Parliament in an effort to avoid the PM's insistence that Britain will leave the European Union on October 31, "come what may". The vote passed by a 327 to 299 margin in favor of a proposal requiring the government to seek a 3-month extension to the Brexit deadline if it cannot agree with the E.U. by October 19.

II) **Euro-zone retail sales** saw a **0.6% drop in July**, a weak showing that matched market expectations and took back about half of June's gain. Annual growth slowed from 2.8% to 2.2%, the second-best result since February. July's decline would have been worse except for the relative strength of the food, alcohol and tobacco subsector where purchases were down only 0.3% for the month. Excluding auto fuel, non-food sales declined an outsized 1.0%, essentially wiping out the previous month's 1.1% increase.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was higher by +2.44% for the week (MTD +2.44%, YTD +13.40%).**

### ASIAN EQUITIES

**Asian equity markets were higher on the week as positive comments regarding the U.S./China trade talks and positive U.S. economy data supported equity prices. The Dow Jones Asia Index rose by +2.29% for the week, (MTD +2.29%, YTD +0.89%).**

**Drivers:** I) Last Thursday, **China's Ministry of Commerce** announced that **the U.S. and China trade negotiation teams will meet in Washington in early October**. Trade talks between the two sides have been suspended since July, when meetings in Shanghai ended with no progress. The decision to resume talks occurred during a phone call between China's chief envoy, Vice Premier Liu He, with U.S. Trade Representative Robert Lighthizer and Treasury Secretary Steven Mnuchin.

II) In August, the **Market China PMI survey**'s business activity index for **services rose from 51.6 to 52.1**. Earlier in the week, we saw the results for the **manufacturing PMI** which showed the index **rising from 49.9 to 50.4**. Together these resulted in the composite index increasing from 50.9 in July to 51.6 in August, its highest level since April. Service sector respondents reported a stronger increase in new orders in August, slightly weaker growth in new export orders, and the strongest growth in payrolls since April 2018.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was higher at +2.39% (MTD +2.39%, YTD +7.20%), the Hang Seng Index rose by +3.83% (MTD +3.83%, YTD +3.19%) and the Shanghai Composite advanced by +3.93% (MTD +3.93%, YTD +20.28%).**

### FIXED INCOME

**Treasury yields rose last week as trade tensions abated between the U.S. and China, and the U.S. jobs data showed solid increases in the labor force participation rate and average hourly earnings.**

**Performance:** I) **The 10-year Treasury yield was higher last week ending at 1.556% up from 1.500%. The 30-year yield advanced last week finishing at 2.030% a up from 1.960%.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index fell -0.15% last week, MTD -0.15% and YTD +8.93%. The Bloomberg Barclays US MBS TR rose by +0.01% last week, MTD +0.01% and YTD +5.54%. The Bloomberg Barclay's US Corporate HY Index was higher by +0.27%, MTD +0.27% and YTD +11.30%.**

### COMMODITIES

**The DJ Commodity Index was higher last week rising by +1.33% last week and is positive month to date +1.33% (YTD +4.62%).** Commodity prices rallied last week, led by oil, after Fed Chair Powell said the Fed would "act as appropriate" to sustain an economic expansion that has been hindered by global trade uncertainties.

**Performance:** I) The **price of oil** climbed higher last week **by +2.84%** up to $56.73 and has risen month to date in September by +2.84% (YTD +24.93%). Oil prices rose as the U.S. rig count dropped and inventory levels declined for a third straight week.

II) The **ICE USD Index**, a gauge of the U.S. dollar's movement against six other major currencies, **was lower by -0.81** ending at 98.01 for the week (MTD -0.81%, YTD +1.91%). The USD dropped on easing geo-political tensions as U.S./China trade talks are scheduled to resume and the UK trying to avoid a hard "Brexit".

III) **Gold fell last week by -0.92%** as the U.S. and China agreed to resume trade talks and solid U.S. private employment data showed the economy is on sound footing. **Gold was lower by -0.92%** last week, declining from $1529.2 to $1515.0 (MTD -0.92%, YTD +18.24%).

### 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 +0.33% MTD and up +5.78% YTD.**
**II) Equity Hedge has advanced by +0.72% MTD and is up +7.69% YTD.**
**III) Event Driven is higher MTD +0.76% and is higher YTD +3.97%.**
**IV) Macro/CTA has fallen by -0.73% MTD and is up +5.43% YTD.**
**V) Relative Value Arbitrage is higher by +0.13% and is up +4.65% YTD.**
**VI) Multi-Strategy is up MTD at +0.12% and is higher by +4.37% YTD.**

### ECONOMIC DATA WATCH AND MARKET OUTLOOK

**Last week** started with a **negative bias** as the U.S. implemented a **new round of tariffs** amounting to 15% on $112 billion of Chinese consumer goods imports. As the week progressed **solid economic data** out of the **U.S.**, receding trade tensions and positive developments in the U.K. and Hong Kong **turned investor sentiment** around sending equity prices higher.

As we enter **next week's trading sessions**, investors will see if the **positive mood** will carry over, as the **global central banks** will work over the next several weeks to **provide** enough **stimulus** to prop up global economic growth. With the U.S. Fed expected to lower rates this month, the ECB to follow suit, the **People's Bank of China** (PBOC) joined the parade last week. The PBOC **lowered the bank reserve rate** to its lowest level since 2007. Will this **race to the bottom for rates**, stabilize or even **reignite global growth**? Can an improvement in the growth outlook and **"TINA" becoming clearer** as bond yields continue to hit historical lows, **send equity prices higher**?

In turning to **next week's economic calendar**, the scheduled data releases will provide markets with an idea on the present standing of **inflation and the U.S. consumer**. We kick off on **Monday** with **July's consumer credit** report, where **solid growth of $16 billion** is expected following June's rise of $14.6 billion that was slowed by a decline in revolving credit.

Following the non-farm payroll report from last Friday, on Tuesday we get the **JOLTs report**. The **quit rate has been stable** despite the slowdown in job openings and hiring, which has been caused by capacity issues in the labor market. Forecasters see **opening**s in July coming in at **7.311 million versus 7.348 million** in June.

**Producer prices** moderated in July, posting a modest 0.2% headline rise but 0.1% declines for the ex-food ex-energy core and mostly negative indications for personal consumption prices. For August the headline consensus is a **monthly 0.1% increase** with the ex-food ex-energy **core** seen at **0.2%.**

The core rate for **Consumer prices** has shown **two consecutive months of pressure**, **up 0.3%** in both June and July, in almost 15 years. This rise in the CPI could see additional upside as there is talk that higher tariffs will now be passed through to the consumer. Forecasters though only see an **incremental increase** in inflation for **August**, at a **consensus 0.1%** overall and a gain of 0.2% for the ex-food and ex-gas core. **Year-on-year** rates are expected to hold steady overall at **1.8%** and rise slightly to 2.3% for the core.

On **Friday** after **Retail Sales** surpassed expectations by rising 0.7% in July, a modest cooling is projected for August with the consensus is looking for a **0.3% increase**. Non-store retailers and discretionary spending at restaurants have boosted strong sales. Unit vehicle sales rose in August which may hold down ex-auto sales which are expected to rise 0.2%. Ex-autos and ex-gasoline are expected at 0.4% with the control group seen very strong at 0.5%.

We finish the week with the report on **Consumer Sentiment** which fell sharply in August to a three-year low of 89.8 due to trade tariff concerns. The **September** reading is expected to **improve to 90.7**.

***Data Source: Haver Economics***