CLEARBROOK

INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets were mixed last week as stocks rose and fell on the ebbs and flows from the U.S./China trade and "Brexit" talks. Equities were supported a bit by the positive earnings from U.S. banks.

a) **Dow Jones -0.13%, MTD -0.44%, YTD +16.99** b) **S&P 500 +0.55%, MTD +0.41%, YTD +21.05%**
c) **Russell 2000 +1.57%, MTD +0.83%, YTD +15.13%**

Drivers: I) **President Donald Trump** last week proclaimed there was a **partial trade agreement with China**, but **uncertainty** arose due to the lack of detail and **less committal language from Beijing**. Worries were heightened as there were rumors that China demanded a lifting of U.S. tariffs before proceeding with any agricultural purchases from the U.S. Uncertainty will remain until President's Trump and XI meet at the Asia-Pacific Economic Cooperation forum in Chile next month.

II) **September Retail Sales fell** an unexpected **0.3%,** and when excluding autos and energy, sales dipped by 0.1%. Offsetting the disappointing September result, was the upside revision for August, which was up an additional 0.2% to 0.6%, taking the year on year rate to 4.1%. This was still the second-best rate since October 2018.

III) The **September Beige Book's** overall assessment of **economic activity** has been **"modest"** in the last three reports, and last week's report is now "slight to modest". Business investment is slowing to a still modest pace while manufacturing overall is said to continue to "edge lower". Household spending was upgraded to "solid" from "mixed", with nonauto retail sales said to be up "modestly" with light vehicle sales "generally robust".

IV) The **U.S. Housing starts** came in at a 1.256 million annual rate in September, falling well short of expectations. August was revised higher to 1.386 million. Behind the headline is a small gain, to 918,000, for single-family starts. These are more additive to GDP per unit than multi-family starts which dropped a very sharp 28.2% to 338,000. The three-month average for single-family starts is up very sharply, at 901,000 for the 5th straight increase.

V) **Equities in October are higher with Small-Cap, Growth, Communication Services and Healthcare leading equity price performance. The laggards for the month are Mid-Cap, Value, Energy and Utilities.**

Capitalization: Large Caps +0.36% (YTD +20.97%), **Mid-Caps -0.07%** (YTD +21.85%) and **Small Caps +0.83%** (YTD +15.13). **Style: Value -0.11%** (YTD +16.68%) and **Growth +0.47%** (YTD +16.78%). **Industry Groups:** Technology +0.51% (YTD +31.84%), Information Technology +0.47% (YTD 31.73%), REITs +1.44% (YTD +31.42%), Consumer Discretionary +1.22% (YTD +24.67%), **Utilities -1.39%** (YTD +23.41%), Consumer Staples -1.11% (YTD +21.89%), Industrials -0.94% (YTD +21.24%), **Communication Services +1.85%** (YTD +19.86%), Financials +0.32% (YTD +19.82%), Materials -1.13% (YTD +15.59%), **Healthcare +1.82%** (YTD +7.46) and **Energy -3.66%** (YTD +2.07%).

EUROPEAN EQUITIES

The MSCI Europe index rose last week by +0.97% based on the initial news of a UK and EU agreement on "Brexit", which still needed to be approved on Saturday by the UK Parliament.

Drivers: I) **Great Britain and the European Union** reached a **tentative "Brexit" agreement** last Thursday. European Commission President Jean-Claude Juncker tweeted: "We have one! It's a fair and balanced agreement for the EU and the UK and it is testament to our commitment to find solutions." However, uncertainty prevails as the Northern Ireland government said they could not back the deal due to the handling of the Irish border issue.

II) **Euro-zone consumer prices rose 0.2%** last month, and the **annual inflation rate** was revised down from 0.9% to **0.8 %,** its **lowest** level since **November 2016**. However, more importantly, the key core measures matched their respective preliminary estimates. For example, the narrowest gauge which excludes energy, food, alcohol and tobacco remains 0.4% above its level in August for a 1.0% yearly rate, in line with its original estimate and just a bit higher than its final August showing.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was higher by +0.97% for the week (MTD +1.76%, YTD +15.72%).**

ASIAN EQUITIES

Asian equity markets rebounded last week on initial signs of progress from the U.S./China trade talks but were mixed on Friday as China reported its worst quarterly GDP print in over two decades. The Dow Jones Asia Index rose by +1.95% for the week, (MTD +2.19%, YTD +3.07%).

Drivers: I) **China's third quarter GDP** print of **6.0%** came in lower than the Street consensus of 6.1% and is the **worst** quarterly showing **since Q1 of 1992**. This extends the downward trend in year-on-year growth rates seen since early 2018, but remains within the government's 6.0 to 6.5% growth target range for 2019. Although year-on-year growth in the third quarter fell, monthly data show that year-on-year growth picked up in September for retail sales and industrial production, while fixed asset investment was steady.

II) **Chinese retail sales grew 7.8%** annually in **September**, **up** moderately from **7.5% in August** and matching the consensus forecast. Retail sales rose 0.70% on the month after increasing 0.67% previously. Stronger headline retail sales growth in September reflects offsetting moves across key categories. Auto sales dropped 2.2% on the year, improving slightly from a decline of 8.1% previously, while year-on-year growth also picked up for sales of home appliances, communications equipment, furniture, and cosmetics.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was higher by +3.18% (MTD +3.39%, YTD +14.57%), the Hang Seng Index rose by +1.53% (MTD +2.36%, YTD +3.23%) and the Shanghai Composite declined by -1.19% (MTD +1.13%, YTD +17.81%).**

FIXED INCOME

Treasury yields were a bit higher last week as global risk assets rose on reports that progress was being made in the U.S./China trade and "Brexit" negotiations between Britain and the European Union.

Performance: I) **The 10-year Treasury yield was higher last week ending at 1.753% up from 1.732%. The 30-year yield climbed higher last week finishing at 2.250 up from 2.210%.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index rose +0.10% last week, MTD -0.17% and YTD +8.34%. The Bloomberg Barclays US MBS TR advanced by +0.02% last week, MTD +0.03% and YTD +5.63%. The Bloomberg Barclay's US Corporate HY Index was higher by +0.39%, MTD +0.22% and YTD +11.65%.**

COMMODITIES

The DJ Commodity Index was lower last week falling by -0.15% last week and is positive month to date +1.42% (YTD +6.14%). Commodity prices were driven lower by the pullback in energy prices, as the decline in China growth dampened prospects for a rise in future demand.

Performance: I) The **price of oil slumped** last week **by -2.20%** down to $53.70 and has fallen month to date in October by -0.68% (YTD +18.25%). The price of oil dropped on the week as slower than expected GDP data out of China and rising U.S. inventories, fueled concerns over the potential decline in future energy demands.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **was lower by -1.21** ending at 97.14 for the week (MTD -2.25%, YTD +1.01%). The USD declined for the week as the GBP rallied strongly on the hopes a new Brexit agreement, and a second straight monthly decline in US leading economic indicators increased the probably for future Fed rate cuts.

III) **Gold was flat last week** as investors shrugged off trade concerns and slowing economic growth in China and took profits from the precious metal which hit a six-year high last month. **Gold was unchanged at +0.00%** last week, remaining steady at $1493.4 (MTD +1.39% YTD +16.55%).

HEDGE FUNDS

Hedge fund returns in October 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 +0.01% MTD and up +5.91% YTD.
II) Equity Hedge has risen by +0.26% MTD and is up +8.15% YTD.
III) Event Driven is higher MTD +0.79% and is higher YTD +5.11%.
IV) Macro/CTA has fallen by -1.63% MTD and is up +3.35% YTD.
V) Relative Value Arbitrage has advanced by +0.09% and is up +4.93% YTD.
VI) Multi-Strategy is up MTD at +0.08% and is higher by +4.66% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

The global market action **last week**, particularly with **equities rising**, is giving us a clue that **earnings** are becoming a greater **driver of markets versus trade**. Markets are becoming **weary** of the now **15-month trade war** between the **U.S. and China**. Despite the initial euphoria that came from the U.S./China announcement of a Phase I truce, the newest road block to any trade deal (China now insisting the U.S. lift tariffs before they move forward with any large agricultural buys) was predictably announcement by China, and this inexorable impasse will continue. On the earnings front, however, several **U.S. money center banks** including JPMorgan, Citibank and the Bank of America **surprised on the upside**, lifting the overall equity market for the week. With only 74 out of 500 (15.0%) S&P companies having reported, 66.0% and 83.0% have beaten top and bottom line estimates. This compares favorably to Q2 thus far (55.0% and 76% beat top and bottom line estimates). It will bode well for equity prices in Q4 should this positive earnings and revenue trend continue.

As we enter **next week's trading sessions**, we will clearly be immersed in the **corporate earnings season** with several high-profile companies reporting. Important bellwethers of the U.S. economy are slated to report earnings and revenues next week, including **Microsoft, Amazon, Intel, MMM and Caterpillar**. The early **October estimates** for S&P 500 Q3 earnings was **-4.5%,** and though similarly negative projections were posted for Q1 and Q2, actual earnings outpaced their estimates. For calendar year 2019, earnings are estimated to come in at a low single digit growth rate according to FactSet. This has the **S&P 500** trading at a **forward P/E of 16.6** which **matches the five-year average**. This would suggest that **equities** may have room to **run on the upside**, as initial earning's estimates for 2020 is a high single digit growth rate for the S&P 500.

In turning to next week's **economic calendar**, the important data releases will be centered around the U.S. housing market and consumer sentiment. We start off on Tuesday with **Existing Homes Sales** which showed an annual rate of 5.490 million units, which in August extended recent gains. The year on year growth rate was 2.6%, a two-year high. September's estimate is expected to show a **slight pullback** to a consensus **5.450 million**.

On Wednesday, the **FHFA House price** report is expected to **match July's gain of 0.4%**. Though the price index is on the plus side, it still resides near multi-year lows.

Durable goods orders in **September** are projected to **drop by 0.7%,** with another month of **weakness for commercial aircraft orders**, which has been the trend this year due to Boeing's on-going Max Jet issues. Excluding transportation equipment, orders are expected to decrease 0.1%. Core capital goods orders have been the mostly closed watched of all the readings in this report and they have been weak with a 0.1% decrease the call after August's 0.4% decline. Closing out on Thursday is the report for **New Homes Sales**, which have rebounded during the June to August time period. The Street's consensus for September's annual new home rate is **699,000** and only modestly below 713,000 in August.

Closing out the week on Friday, we get the Street's final **U.S. consumer sentiment index** for **October is 96.0** which would be **unchanged** from the preliminary reading. The preliminary reading rose 1.2 points from, however, a very weak August to leave the index near three-year lows.

Data Source: Haver Economics