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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets led by the S&P 500 rallied close to their all-time highs, boosted by better than expected corporate earnings and signs of progress being made in the U.S./China trade negotiations.

a) **Dow Jones +0.70%, MTD +0.26%, YTD +17.81** b) **S&P 500 +1.23%, MTD +1.64%, YTD +22.54%**
c) **Russell 2000 +1.53%, MTD +2.37%, YTD +16.89%**

Drivers: I) The **U.S. earnings season** has seen about 200 companies report, and thus far, **78% and 64% have beaten their earnings and revenue estimates**. This is an improvement so far, from the 76% and 56% beat of both measures during Q2. Six out of eleven sectors are expected to posted positive earnings growth, led by Real Estate (+4.7%) and Healthcare (+4.5%). Energy is expected to post a decline of -38.8% according to FactSet.

II) **Existing home sales fell** back from a strong August, **down 2.2% in September** to a 5.380 million annual. **Housing data** on a **month-to-month** basis is often **volatile** which puts the emphasis on the three-month average. For **three months** the **average continued to climb**, up 0.6% to 5.433 million for the fourth straight gain. **Year-on-year**, sales in September were up 3.9% which is the **best reading since March 2017.**

III) **Markit's manufacturing PMI** is showing **stability** and slight but still noticeable acceleration. **October's** flash of **51.5 is up 0.5 points from September** and more than a full point from August. Markit's services sample continues to report about the same conditions and limited rate of plus-50 growth as the manufacturing sample, coming in at 51.0 and essentially unchanged from the prior two months.

IV) **Consumer sentiment** in October showed **solid improvemen**t from September. The index ended October at 95.5 versus 96.0 at mid-month and against 93.2 in September. Current conditions a positive for October, rose nearly 5 points to 113.2 and offers a positive precursor for consumer spending. Expectations also improved, up nearly 1 point to 84.2. The report notes that the negative impact of tariffs is the greatest concern for consumers.

V) **Equities in October are higher with Small-Cap, Value, Technology and Information Technology leading equity price performance. The laggards for the month are Mid-Cap, Growth, Utilities and Con. Staples.**

Capitalization: Large Caps +1.63% (YTD +22.50%), **Mid-Caps +1.06%** (YTD +23.23%) and **Small Caps +2.37%** (YTD +16.89). **Style: Value** +**1.78%** (YTD +18.89%) and **Growth +1.36%** (YTD +17.82%). **Industry Groups: Technology +3.01%** (YTD +35.12%), **Information Technology +2.93%** (YTD 34.95%), REITs +0.31% (YTD +29.96%), **Utilities -0.92%** (YTD +24.00%), Industrials +1.21% (YTD +23.88%), Consumer Discretionary +0.31% (YTD +23.55%), **Consumer Staples -0.48%** (YTD +22.65%), Financials +2.29% (YTD +22.18%), Communication Services +2.34% (YTD +20.44%), Materials +0.15% (YTD +17.08%), Healthcare +2.16% (YTD +7.82) and Energy +0.62% (YTD +6.60%).

EUROPEAN EQUITIES

The MSCI Europe index rose last week by +1.37% as it appeared progress was being made in the U.S./China trade talks and more orderly "Brexit" was more probable than not.

Drivers: I) **British lawmakers approved** a measure advancing Prime Minister **Boris Johnson's Brexit deal** in Parliament last week, but **rejected** a three-day approval timetable proposed by the government to meet the **Oct. 31 deadline to leave the EU**. The government has already asked for an extension to the end of January 2020, and European Council President Donald Tusk said he will recommend that the request be granted.

II) The **Eurozone economy struggled to grow in October**, as the **Composite PMI** registered a **50.2** showing. The composite output index was slightly firmer than September's final 50.1 and so still barely above the 50-expansion threshold. **Weakness** continues to be mainly concentrated in **manufacturing** where, at **45.7**, the flash sector PMI was unchanged from its lowly final level at quarter-end and indicative of the **steepest downturn since 2012**.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was higher by +1.37% for the week (MTD +4.80%, YTD +16.14%).**

ASIAN EQUITIES

Asian equity markets were mixed last week as investors are cautious over corporate earnings that may have been negatively affected by the U.S./China tariff war. The Dow Jones Asia Index rose by +0.50% for the week, (MTD +2.70%, YTD +3.59%).

Drivers: I) The **flash estimate for the Japan services** business activity index for **October is 50.3**, **down sharply** from the final estimate of 52.8 for September (unchanged from the flash estimate of 52.8). Respondents in the services sector reported stronger growth in new orders, but weaker growth in output, employment, and new export orders and weaker sentiment about the outlook. Input costs and selling prices were both reported to have increased at a faster pace in October.

II) The flash estimate for the **Japan manufacturing PMI** headline index for **October is 48.5**, **down** from the final **estimate of 48.9 for September** (unchanged from the flash estimate). The survey has indicated a **contraction** in the Japanese manufacturing sector for **eight of the last nine months**, with the headline index at its **lowest level since June 2016.** Respondents reported output fell for a tenth consecutive month in October and at a sharper rate than in September, while the survey's measures of new orders and business confidence also weakened.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was higher by +1.37% (MTD +4.80%, YTD +16.14%), the Hang Seng Index fell by -0.12% (MTD +2.24%, YTD +3.11%) and the Shanghai Composite advanced by +0.57% (MTD +1.71%, YTD +18.49%).**

FIXED INCOME

Treasury yields rose last week as the U.S. Trade Representative's office said Washington and Beijing were "close to finalizing some sections of the agreement", better known as "Phase I".

Performance: I) **The 10-year Treasury yield was higher last week ending at 1.796% up from 1.753%. The 30-year yield climbed higher last week finishing at 2.289 up from 2.250%.**

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 -0.32% and YTD +8.17%. The Bloomberg Barclays US MBS TR dropped by -0.04% last week, MTD -0.01% and YTD +5.59%. The Bloomberg Barclay's US Corporate HY Index was higher by +0.31%, MTD +0.53% and YTD +11.99%.**

COMMODITIES

The DJ Commodity Index was positive last week rising by +1.11% last week and is positive month to date +2.69% (YTD +7.47%). Commodity prices rose last week as rumors of positive developments in the U.S./China trade talks prompted a rally in energy and industrial metals.

Performance: I) The **price of oil jumped** last week **by +5.45%** up to $56.63 and has risen month to date in October by +4.73% (YTD +24.71%). The price of oil rallied strongly as news of progress on part of U.S./China trade deal eased concerns over a slowdown in economic growth and energy demand.

II) The **ICE USD Index**, a gauge of the U.S. dollar's movement against six other major currencies, **was higher by +0.71** ending at 97.83 for the week (MTD -1.56%, YTD +1.72%). The USD climbed higher on the week as the ECB left interest rates unchanged, and perceived progress in the US/China trade negotiations.

III) **Gold was higher for a second week in a row,** as global central banks are expected continue their monetary easing. **Gold was higher by +0.91%** last week, climbing to $1507.1 (MTD +2.32%, YTD +17.62%).

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 +0.17% MTD and up +6.08% YTD.
II) Equity Hedge has risen by +0.54% MTD and is up +8.45% YTD.
III) Event Driven is higher MTD +0.87% and is higher YTD +5.18%.
IV) Macro/CTA has fallen by -1.49% MTD and is up +3.49% YTD.
V) Relative Value Arbitrage has advanced by +0.22% and is up +5.08% YTD.
VI) Multi-Strategy is up MTD at +0.22% and is higher by +4.81% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

The **U.S. equity markets rallied** for the week as **better than expected earnings** reports from the S&P 500, brought the Index to within three points of the all-time high (3025.2). Closing on Friday at 3022.55, the S&P 500 with 40% of companies having reported, are seeing earnings around the -2.0% level versus the original estimated of -4.6%. Thus far **78% and 64% of reporting companies have beaten their earnings and revenues estimates** respectively. The earnings beat percentage is ahead of the five-year average of 65%. Should earnings hold in, and with a semblance of progress being made in the U.S./China trade and "Brexit" negotiations, we should see a record high for the S&P 500 next week.

As we enter **next week's trading sessions**, investors will fixate on the **interest rate decision** from the **Federal Reserve** and their outlook on rates. The markets will also keep a keen eye out for any developments coming out of the fluid **U.S./China and "Brexit" talks**. It looks like the **Chinese** have **began to buy soybeans** to the tune of **$20 billion** and is expected to ramp up to $40 to $50 billion once U.S. tariffs are lifted. It is hoped that progress towards some trade deal over the next few weeks, will lead to a deal signing between Presidents Trump and Xi in December. And with a hard "Brexit" seemingly off the table, it will be interesting to see if the inevitable extension will be to mid-November or till January 30, 2020.

In turning to **next week's economic calendar**, the highlights for the week will be the interest rate policy announcement from the **U.S. Federal Reserve** and the Employment data out on Friday. The first key data release is Tuesday's **Consumer Confidence Index** which fell sharply in August and included declines for the employment and income outlooks. For **October's index**, the Street consensus is **128.6 versus September's 125.1**. **Existing home sales** out the same day, have been moving higher as did the pending sales index in August, up a very sharp 1.6%. For September, the pending index is **expected decline 0.2%.**

GDP growth for Q3 out on Wednesday is expected to rise at a **1.7% rate versus the 2.0% seen in Q2.** Supporting GDP growth is the projected boost from residential investment and consumer spending. Consumer spending though is seen slowing from a hot 4.6% second-quarter pace, to 2.6% in the third. On **Wednesday afternoon**, the **Fed is expected at announce a 25-basis point rate cut**, but the consensus is far from unanimous. The rate cuts seen in July and August were engendered by the slowing in global growth, trade tensions and the associated risks to domestic manufacturing.

The expectation for **October nonfarm payrolls** is **slowing growth** at a consensus **93,000 versus a 136,000** increase, reflecting **expected declines tied to the GM strike**, is. Manufacturing payrolls, where vehicle payrolls are counted, are expected to fall 50,000. The **unemployment rate** hit a 50-year low of 3.5% in September but is seen edging higher to **3.6%** in October. Average hourly had been moving up but stalled in September, coming in unchanged on the month for a much lower-than-expected 2.9% year-on-year rate. For average **hourly earnings** in October, the consensus is moderate at a **monthly 0.2% increase** for yearly 3.0% growth.

Data Source: Haver Economics