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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets slumped last week after worse than expected showings from the ISM Manufacturing and Services reports. Markets did rebound on Friday following the jobs report which calmed recession fears.

a) **Dow Jones -0.88%, MTD -1.23%, YTD +16.06** b) **S&P 500 -0.30%, MTD -0.80%, YTD +19.59%**
c) **Russell 2000 -1.28%, MTD -1.47%, YTD +12.49%**

Drivers: I) September's **ISM Manufacturing Index** posted a reading of **47.8**, which was **below the consensus estimate of 50.0**. A contraction in new export orders was severe, which posed a 41.0 highlighting the third consecutive month of contraction. This outsized contraction mirrored the substantial declined suffered by the PMI manufacturing report. Total new orders in September's report at 47.3 was also well below breakeven 50.

II) The **ISM Non-Manufacturing Index** continued to show a monthly expansion but came in at its **lowest rate since August of 2016**. **September's** result **was 52.6**, which mirrored Tuesday's 47.8 disappointment for ISM's manufacturing index, was well beneath the Street's consensus estimate of 55.5. New orders also slowed unexpectedly in September, down 6.6 points but still showed tangible growth at 53.7.

III) The **U.S. Nonfarm payrolls rose 136,000** in September with August revised sharply higher, up an additional 38,000 to 168,000. The **Unemployment Rate fell to 3.5%,** which is the **lowest since December 1969.** Although the unemployment rate is historically low, it did not prompt a runaway increase in average hourly wages, which rose by 2.9% year over year. The growth rate was the lowest since July of 2018.

IV) The U.S. jobs data highlighted the steady demand for workers, while supplies are falling. The **pool of available workers fell 545,000** in the month **to 10.6 million** which is an **eight-year low**. Included in the pool are the number of unemployed which fell 275,000 in the month to 5.8 million, the lowest level in over 19 years. The limited slack in the jobs market has not caused an acceleration in wage inflation, which was unchanged in September.

V) **Equities in October are lower with Large-Cap, Growth, REITS and Utilities leading equity price performance. The laggards for the month are Small-Cap, Value, Materials and Energy.**

Capitalization: **Large Caps -0.78%** (YTD +19.59%), Mid-Caps -1.14% (YTD +20.53%) and **Small Caps -1.47%** (YTD +12.49). **Style: Value -2.22%** (YTD +14.21%) and **Growth -1.15%** (YTD +14.90%). **Industry Groups:** Technology +0.10% (YTD +31.31%), Information Technology +0.04% (YTD 31.16%), **REITs +0.22%** (YTD +29.34%), **Utilities +0.17%** (YTD +25.36%), Consumer Staples -0.02% (YTD +23.23%), Consumer Discretionary -1.18% (YTD +21.71%), Industrials -2.58% (YTD +19.23%), Communication Services -0.20% (YTD +17.45%), Financials -2.02% (YTD +17.03%), **Materials -3.22%** (YTD +13.14%), Healthcare +0.02% (YTD +5.57) and **Energy -3.03%** (YTD +2.73%).

EUROPEAN EQUITIES

The MSCI Europe index was lower last week by -2.67%, as the WTO ruled the U.S. could implement $8 billion of tariffs on European goods, after determining the EU had been providing subsidies to Airbus.

Drivers: I) The **Word Trade Organization authorized** the **U.S.** to **levy $7.5 billion of tariffs** on **EU goods**, due to EU **subsidies** provided to **Airbus.** The tariffs will affect imports of aircraft, food products and luxury goods from the European Union. The Office of the U.S. Trade Representative said it would impose the tariffs starting Oct. 18, with 10% levies on jetliners and 25% duties on Irish and Scotch whiskies, cheeses and hand tools.

II) **Eurozone inflation fell** by 0.1% to a **0.9% annual rate** which was slightly below August's final result and below market expectations. It was also the **first sub 1.0% reading** since **November 2016.** However, crucially and as expected, the deceleration in the headline rate was not mirrored in the key core measures. Excluding energy, food, alcohol and tobacco, inflation edged 0.1% firmer to 1.0%, its fifth consecutive reading within a tight 0.8% to 1.0% range. Similarly, ex- energy and unprocessed food the rate was also a bit higher at 1.2%.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was lower by -2.67% for the week (MTD -2.60%, YTD +10.76%).**

ASIAN EQUITIES

Asian equity markets declined last week as weaker than expected U.S. economic data and uncertainty over the U.S. / China trade talks, engendered worries of a global recession. The Dow Jones Asia Index dropped by -1.44% for the week, (MTD -1.14%, YTD -0.28%).

Drivers: I) **Japan's Tankan survey** shows **business sentiment weakened** in the **manufacturing** sector but remained **steady in the non-manufacturing** sector during the third quarter. The survey also shows firms in the manufacturing sector expect capital expenditures to strengthen in the fiscal year ending March 2020, while firms in the non-manufacturing sector expect slower growth. The business conditions index for large manufacturers fell from 7 in the three months to June to 5 in the three months to September, above the consensus forecast of 3.

II) The **Japan's Manufacturing PMI index fell to 48.9** in September, in line with the flash estimate and consensus estimate, confirming a small drop from the revised estimate of 49.3 in August. The Index showed a contraction in the sector for the fifth consecutive month. Survey respondents reported output and new orders fell at a faster rate in September, while **new export orders** also **fell** for a **tenth consecutive month**, in line with other data indicating weak external demand from major trading partners.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was lower at -2.14% (MTD -1.59% YTD +9.06%), the Hang Seng Index fell by -0.54% (MTD -1.07% YTD -0.23%) and the Shanghai Composite declined by -0.92% (MTD +0.00% YTD +16.49%).**

FIXED INCOME

Treasury yields declined last week as sub-par economic data out of the U.S., Europe and Asia increased the probability global central banks will continue to cut interest rates in the coming months.

Performance: I) **The 10-year Treasury yield was lower last week ending at 1.530% down from 1.683%. The 30-year yield declined last week finishing at 2.020 down from 2.130%.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index rose +0.81% last week, MTD +0.76% and YTD +9.22%. The Bloomberg Barclays US MBS TR advanced by +0.37% last week, MTD +0.38% and YTD +5.84%. The Bloomberg Barclay's US Corporate HY Index was lower by -0.49%, MTD -0.47% and YTD +11.02%.**

COMMODITIES

The DJ Commodity Index was lower last week falling by -0.73% last week and is positive month to date +0.00% (YTD +4.66%). Commodity prices declined last week as energy and industrial metals dropped due to disappointing global economic data.

Performance: I) The **price of oil slumped** last week **by -5.64%** down to $53.01, but has dropped month to date in October by -1.96% (YTD +16.73%). The price of oil suffered its worst weekly decline since July 2018, as weak economic data prompted concerns over global demand.

II) The **ICE USD Index**, a gauge of the U.S. dollar's movement against six other major currencies, **was lower by -0.29** ending at 98.84 for the week (MTD -0.54%, YTD +2.77%). The USD declined last week due to lower than expected ISM data from the U.S., which supports the need for further QE from global central banks.

III) **Gold rose last week by +0.46%** as weaker than expected manufacturing and non-manufacturing U.S. data supported the call for further interest rate cuts from the Fed. **Gold was higher by +0.46%** last week, climbing from $1503.3 to $1510.3 (MTD +0.25%, YTD +17.87%).

HEDGE FUNDS

Hedge fund returns in October are primarily higher for the month with core strategies Event Driven, Relative Value and Multi-Strategy in positive territory. Equity Hedge and Macro are lower on the month.

Performance:

I) The HFRX Global Hedge Fund Index is lower at -0.15% MTD and up +5.74% YTD.
II) Equity Hedge has declined by -0.50% MTD and is up +7.33% YTD.
III) Event Driven is higher MTD +0.42% and is higher YTD +4.71%.
IV) Macro/CTA has fallen by -0.67% MTD and is up +4.35% YTD.
V) Relative Value Arbitrage is higher by +0.01% and is up +4.86% YTD.
VI) Multi-Strategy is up MTD at +0.07% and is higher by +4.65% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Last week we saw **global equity and risk assets fall** as vestiges of the **global economic slowdown hit the U.S.** shores. A very **weak ISM Manufacturing Index** report out on Tuesday, showed the U.S. had joined the rest of the world in seeing a slowing in manufacturing, as the Index hit a **10-year low**. This sent the S&P 500 day the next two days by -1.23% and -1.79% respectively. The poor showing in manufacturing was followed up on Thursday by an unexpected **plunge in the ISM Services Index** from 56.4 to 52.6, far below the consensus estimate of 55.3. This reading was more consequential as services account for 88% of the US economy, versus 12% for manufacturing. Much of the slowdown in manufacturing and services have been attributed to uncertainty caused by the U.S./China trade dispute. **Equity markets and risk assets finished the week on a positive note**, as **Fed Vice Chair** Richard Clarida stated on Thursday the **risk of a recession remained low** and the Fed would support growth "with appropriate monetary policy".

As we enter **next week's trading sessions**, global markets will be looking forward to the **beginning of the 13th round of negotiations** between senior trade officials from **China and the U.S.** in Washington, DC. Investors will be looking for positive signals, as the Chinese recently stated talks would be better off when both sides "take more enthusiastic measures" to show goodwill. The question at hand is whether President Trump willing to take a partial short-term win, instead of holding out for an entire deal, as he has intimated over the past several weeks.

In turning to **next week's economic calendar**, the key releases will be inflation and consumer data. Starting out on Monday morning we have the **Consumer Credit** report for August. The call is for **slower growth of $18.2 billion** following July's larger than expected increase of $23.3 billion that was bolstered by an outsized $10.0 billion increase in revolving credit.

The **Producer Price Index** showed **muted** pressure by rising only 0.1% in August. The consensus estimate for **September** is for the headline level to **rise by another 0.1%,** while the ex-food and ex-energy reading is seen coming in at 0.2%. **Year on year** rates are projected to post a **1.8%** rise overall, and a 2.3% increase ex-food and ex-energy.

Opening-up on Wednesday is the **JOLTs report**, where job openings have been slowing which contrasts with the declining unemployment rate. The Street is expecting openings in August to come in at **7.181 million versus 7.217 million** in July. Also, out on Wednesday are the FOMC minutes, which should provide clues on the Fed's outlook for further interest rate cuts.

CPI data on Thursday is not expected to rise by the 0.3% seen over the past three months. The Street consensus calls for a 0.2% increase for September, while the yearly **core rate** is projected to hold **steady at 2.4%.** The overall CPI is estimated to have risen by 0.1% with the yearly rate up 0.1% to 1.8%.

We finish the week with the October **Consumer Sentiment Index,** where a **downgrade** is expected to 92.0, a decline from 93.2 seen in September.

Data Source: Haver Economics