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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets staged a sharp rally on Friday, sending the S&P 500 and NASDAQ to new highs, as the October jobs data exceeded estimates and there were upward revisions to the August and September data.

a) **Dow Jones +1.44%, MTD +1.11%, YTD +19.51** b) **S&P 500 +1.49%, MTD +0.98%, YTD +24.36%**
c) **Russell 2000 +1.99%, MTD +1.73%, YTD +19.21%**

Drivers: I) **October's employment report** came in solid and steady and supported the Federal Reserve's outlook for stable overall economic growth. Nonfarm payrolls rose **128,000** which **exceeded expectations (estimate 90,000)**, and the underlying strength of the job market was firmly underscored by **large upward revisions** to the **two prior months** totaling a **net 95,000**. Manufacturing, reflecting the effects of the now settled GM strike, fell 36,000 in a very steep decline that looks, however, to reverse in the November employment report.

II) Indications of just how strong the labor market comes from the **unemployment rate**, up 0.1% but at a very low **3.6%** which is just off September's 50-year low, and the **participation rate** which keeps climbing, up another tenth to **63.3% which is a six-year high**. Despite the strong jobs growth, **capacity** in the labor force may be **available** as **wage growth** is still **moderate** at a year on year rate of **3.0%.**

III) The **revival** in the **U.S. housing market** is picking up steam, as the **MBA Mortgage applications rose 2.0%** in the October 25 week to lift **year-on-year growth** 4.0% to a very **healthy 10.0%.** These results are favorable indications for October home sales. The refinance index edged 1.0% lower reflecting a move higher in the week for mortgage rates as 30-year conforming loans averaged 4.05%, up 3 basis points from the prior week.

IV) The **ISM's manufacturing** report for October came in at **48.3**, missing the Street's consensus by 1 point, but gained a 1/2 point from September. New orders improved nearly 2 points in October but, at 49.1, are still under breakeven 50. **New export orders**, however, **improved** markedly, up more than 9 points and back over 50 at 50.4. Yet total backlogs are a major weakness for ISM's sample, down another point and in deep contraction at 44.1.

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

Capitalization: **Large Caps +1.01%** (YTD +24.32%), Mid-Caps +1.19% (YTD +24.68%) and **Small Caps +1.73%** (YTD +19.21). **Style: Value +1.66%** (YTD +20.53%) and **Growth +1.30%** (YTD +19.21%). **Industry Groups:** Technology +1.22% (YTD +37.91%), Information Technology +1.23% (YTD 37.81%), **REITs -0.25%** (YTD +29.08%), **Industrials +2.20%** (YTD +26.43%), Consumer Discretionary +0.63% (YTD +24.11%), Financials +1.46% (YTD +24.09%), **Utilities -0.20%** (YTD +23.94%), Consumer Staples -0.02% (YTD +22.69%), Communication Services +0.68% (YTD +22.00%), Materials +1.44% (YTD +18.56%), Healthcare +0.17% (YTD +11.09) and **Energy +2.51%** (YTD +6.26%).

EUROPEAN EQUITIES

The MSCI Europe index rose last week by +1.04% as the U.S. Fed lower interest rates by 0.25% as expected, and the EU approved an extension of the "Brexit" date to January 31, 2020.

Drivers: I) **Eurozone inflation fell in October** coming in at an **annual rate at 0.7%**, down from its 0.8% final September reading. This was in line with market expectations and its lowest reading since November 2016. The headline deceleration was mostly due to the more volatile components. As such, the rate for the core measure, ex- energy, food, alcohol and tobacco, was 1.1%, slightly higher than its final September print.

II) The EU reported **Eurozone economic sentiment deteriorated** again in October. At a lower than expected **100.8**, the ESI was down a further 0.9 points versus its unrevised September reading and at its **lowest level** since the **start of 2015.**The headline dip was due to worsening morale in both the household sector (-7.6 after -6.5), which saw a 10-month low, and industry (-9.5 after -8.8) where the sub-index hit its weakest mark since July 2013.

III) Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was higher by +1.04% for the week (MTD +0.81%, YTD +18.32%).

ASIAN EQUITIES

Asian equity markets were mostly higher after disappointing economic data out of China and the U.S. Fed cutting rates, though future rate cuts are in question. The Dow Jones Asia Index rose by +1.50% for the week, (MTD +0.54%, YTD +5.14%).

Drivers: I) **China's** CFLP **Manufacturing PMI index fell** from 49.8 in **September to 49.3** in October, below the consensus forecast of 49.8 and indicating that activity in the sector contracted for the sixth consecutive month. The CFLP Non-Manufacturing PMI index fell from 53.7 in September to 52.8 in October, its **lowest level since January 2016.**

II) **Retail sales in Japan rose 9.1%** on the year in September, rising strongly from an increase of 1.8% in August and **well above** the **consensus forecast** for growth of **6.9%.** In seasonally adjusted terms, retail sales advanced 7.1% on the month after increasing 4.6% previously. Stronger year-on-year growth in headline retail sales in September was driven by a surge in spending ahead of an increase in consumption tax rates from 8.0% to 10% at the start of October and was broad-based across all categories.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was higher by +0.23% (MTD -0.32%, YTD +16.41%), the Hang Seng Index rose by +1.61% (MTD +0.72%, YTD +4.77%) and the Shanghai Composite advanced by +0.11% (MTD +0.99%, YTD +18.62%).**

FIXED INCOME

Treasury yields declined last week as U.S. industrial production data continues to disappoint, and on word that the U.S. and China trade teams have reached a deal in principal for Phase I.

Performance: I) **The 10-year Treasury yield was lower last week ending at 1.716% down from 1.791%. The 30-year yield declined last week finishing at 2.19 lower from 2.289%.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index rose +0.47% last week, MTD -0.15% and YTD +8.68%. The Bloomberg Barclays US MBS TR advanced by +0.35% last week, MTD -0.02% and YTD +5.95%. The Bloomberg Barclay's US Corporate HY Index was lower by -0.13%, MTD +0.13% and YTD +11.85%.**

COMMODITIES

The DJ Commodity Index was positive last week rising by +0.87% last week and is positive month to date +1.55% (YTD +8.34%). Commodity prices rose last week as there was perceived progress in the U.S./China trade talks and a weaker USD, as the US Fed lowered interest rates by 0.25%.

Performance: I) The **price of oil declined** last week **by -0.70%** down to $56.23 and has risen month to date in October by +3.78% (YTD +23.83%). The price of oil dropped on the week as an industry report showed that output from OPEC rose from an eight-year low, in response to the pipeline attacks in Saudi Arabia.

II) The **ICE USD Index**, a gauge of the U.S. dollar's movement against six other major currencies, **was lower by -0.72** ending at 97.12 for the week (MTD -0.23%, YTD +0.98%). The USD declined last week as the U.S. Fed lowered rates as expected, and U.S. manufacturing data disappointed on the downside.

III) **Gold was higher for a third week in a row,** as the U.S. Fed lowered short term interest rates as expected and the Institute for Supply Management reported its manufacturing index fell to 47.8% last month from 49.1%, marking the lowest level since June 2009. **Gold was higher by +0.64%** last week, climbing to $1516.7 (MTD +0.12%, YTD +18.37%).

HEDGE FUNDS

Hedge fund returns in November 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 +0.31% MTD and up +6.22% YTD.
II) Equity Hedge has risen by +0.52% MTD and is up +8.43% YTD.
III) Event Driven is higher MTD +1.25% and is higher YTD +5.58%.
IV) Macro/CTA has fallen by -1.40% MTD and is up +3.58% YTD.
V) Relative Value Arbitrage has advanced by +0.32% and is up +5.17% YTD.
VI) Multi-Strategy is up MTD at +0.29% and is higher by +4.89% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

A better than expected **U.S. Jobs report, solid corporate earnings** and a **rate cut by the U.S. Federal Reserve**, started November off with **a strong rally** in the **equity markets**. The U.S. Jobs data for October was a plus, but we also saw upward revisions to September (44k) and August (51k). This brings the Labor Force participation rate to its highest level in six years. In terms of corporate earnings, with 358 (71.0%) S&P 500 companies having reported, 81% and 61% have beaten their bottom- and top-line estimates respectively. On the rate front, the Fed cut rates as expected by 0.25%, the third-rate decrease in 2019. This follows nine rate increases from December 2015 to December 2018.

As we enter **next week's trading sessions,** will the **positive** economic and earnings **development**s in the **U.S. be enough to propel asset prices higher**. Ever looming in the **background** is the **U.S./China trade** negotiations. The U.S. trade team intimated last week that the "phase one" installment of the deal may not be ready for late November, which was anticipated to be signed by President's Trump and Xi at the APEC summit in Chile. Due to domestic protests, the summit has been cancelled, and the U.S. and China are working on an alternate date and sight for the potential deal signing. And not to forget **"Brexit",** the British Parliament forced a delay in the process, as the EU agreed to **extend the exit date to January 31, 2020**. Finally, the Brit's House of Commons voted 438 to 20 to hold a **snap election on December 12th**, when the faith of "Brexit" may finally be decided.

In turning to **next week's economic calendar**, the focus will be on the U.S. Consumer data and the Services industry. But we start off on Monday with **U.S. Motor vehicle sales**, where the consensus is a **17.0 million** annual rate versus September's better-than-expected, but still moderate 17.2 million rate. Also, out on Monday is September's **U.S. Factory Orders** which saw the durables side of the report drop 1.1%, with core capital goods orders falling a disappointing 0.5%. Forecasters see factory orders in September, which will include initial data on non-durable goods, **falling 0.5%.**

The **ISM Non-Manufacturing Index** on Tuesday is hoping for a **rebound** after September's abrupt slowing to the three-year low of 52.6. The Street consensus sees is an improvement to 53.5.

On **Thursday,** we get a glimpse of how the consumer balance sheet is fairing, with the release of September's U.S. Consumer Credit report. **Consumer credit** is projected to show **slower growth of $15.1 billion** following August's expected increase of $17.9 billion.

Closing out the week we get the release of the **University of Michigan Consumer Sentiment Index** on Friday. At a consensus **96.0**, forecasters see a slight **improvement** in consumer sentiment for November which ended October at 95.5 (revised from a 96.0 preliminary October score). Of note in October's report were **sharp declines in inflation expectations.**

Data Source: Haver Economics