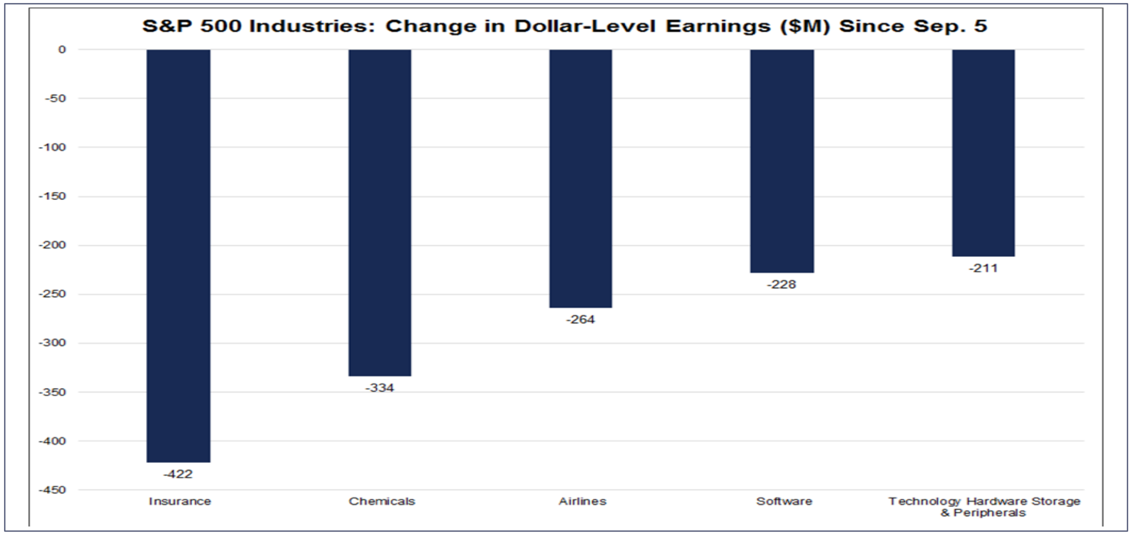
Market Recap

Hurricane Impacts Span Many Industries



Source: FactSet

Tax Reform Back on the Table

Source: Bloomberg, Goldman Sachs

In the wake of hurricanes Harvey and Irma, just as communities are left to recover from the physical and emotional damages, the earnings of many companies within the major equity indices are reeling from the storms' impacts, particularly firms in the insurance, chemical, and airline industries. Since Labor Day, estimated 3rd Quarter earnings growth rate for the S&P 500 have declined from 5.1% to 4.5%. Insurance companies are seeing extremely high losses from property damage, and those pressures will continue for some time as the full extent of the damage is recorded. Chemicals firms have been hit with lower sales due to temporarily diminished demand, and production interruptions and higher expenses related to damage suffered by manufacturing facilities. Airlines experienced vast flight cancellations and a significant decrease in passenger traffic due to the storms. Of the aggregate $1.6 billion decline in S&P 500 estimated earnings, Insurance ($-422 million), Chemicals (-$344 million), and Airlines (-$264 million) represent 65% of the downward revision to S&P 500 estimates, highlighting the significant – and immediate - effect that the storms have had on the index as a whole.

This week, GOP leadership and the Trump Administration rolled out the essential tenets of a long-awaited proposed corporate tax reform plan. Among other things, the proposal calls for a cut to the Corporate Tax Rate (to 20%), a decreasing business pass-through rate (to 25%), a shift to a territorial system (whereby revenue is taxed based on the jurisdiction in which it is earned), and the ability for businesses to reduce pre-tax income by the amount of equipment expenses. While much work still remains to pass the bill into law, the prospect of such business-friendly change to the tax code re-introduces a measure of upside risk into the U.S. market. The potential earnings upside is now priced back into the market, with high-taxed companies (those firms that would benefit most from tax reform) beginning to outperform the broader S&P 500 index again. This reverses an earlier trend of underperformance when investors questioned the timing, content, and probability of future tax legislation.

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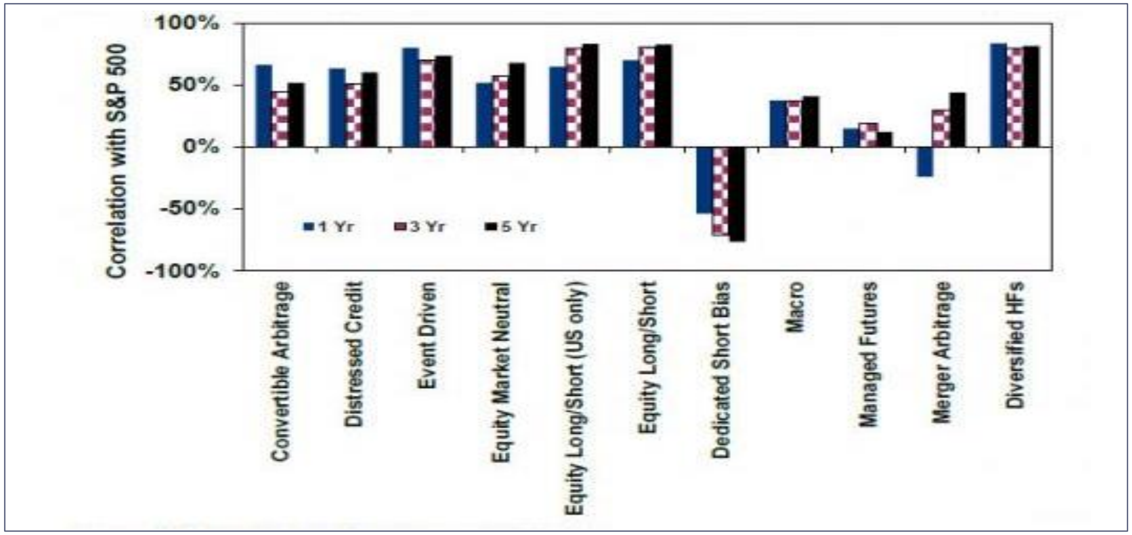
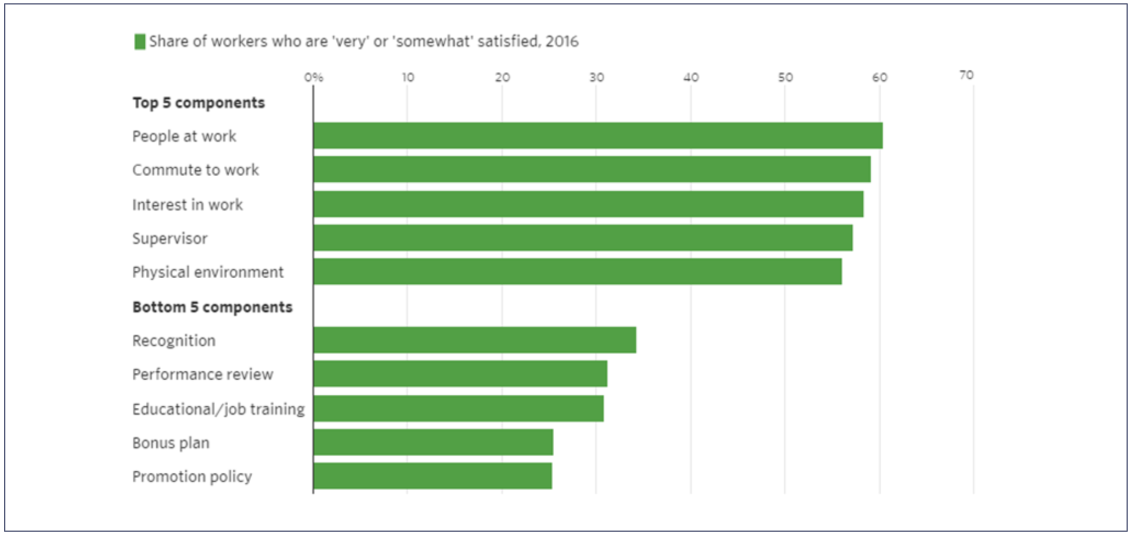
What is a Hedge Fund?



Source: BofA Merrill Lynch Global Research, Bloomberg

Americans are Happier at Work



Source: Conference Board

In their simplest form, hedge funds differ from traditional investments in both structure and strategy. A hedge fund is a commingled investment vehicle designed to provide investors with low correlation to traditional equity markets, often employing specific strategies to neutralize risk or volatility. Hedge funds differ from mutual funds in the range of allowable investment approaches. Hedge funds are constructed to take advantage of identifiable market opportunities, and are often classified according to investment style. The most popular is the Long-Short hedge fund strategy. This style involves taking long positions in undervalued stocks and short positions in overvalued stocks, nullifying market risk to achieve relatively neutral exposure. Convertible Arbitrage strategies attempt to exploit mispricing in convertible securities like bonds or warrants by hedging against the associated risks through a short position in the underlying equity. Lastly, Global Macro strategies attempt to take advantage of systematic moves in markets by trading currencies, futures and option contracts, concentrating on market-wide opportunities rather than on individual equity positions.

A recent Conference Board survey found that, while job satisfaction has improved each of the last six years, 2016 marked the first time in 11 years that a majority of Americans reported feeling satisfied with their jobs. When surveyed on individual components of their workplace experience, people appeared to be happiest with the social and logistical aspects of their job, and least satisfied with the development and advancement opportunities afforded to them. 60.5% of respondents felt positively about their coworkers, making it the most common factor contributing to job satisfaction. Workers also expressed content with their commute, their interest in their work, their supervisor, and their physical environment, suggesting that they enjoy their day-to-day workplace experience. However, companies fell short of employees' expectations for promotion policies, bonus plans, training opportunities, performance reviews, and recognition, implying that workers feel stagnant and undervalued.

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