STIFEL

Meriden Retirement Board
Tuesday – September 12, 2017

Overview

Stocks are reacting to the developing impact of hurricanes, emerging legislative initiatives, and ongoing tensions with North Korea. Hurricane Irma's assault on Florida followed by just ten days Hurricane Harvey's historic flooding in Texas. Next up: Hurricane Jose's still uncertain path. While the storm surge from Irma was not as profound as forecast, these natural disasters will sap economic activity in the third quarter. But the rebuilding efforts and recovery activity actually will boost local economies and promote growth over time. For example, damage from Hurricane Harvey will require the replacement of roughly 500,000 cars, with insurance proceeds funding the vast majority of these purchases. Congress quickly passed hurricane relief along with a short-term extension of the debt ceiling. President Trump, in making the deal with Democrats, sent a message of compromise to Republicans, and that agreement could invite new focus on crafting a tax reform package before the end of the year. Meanwhile, North Korea continues to pursue its nuclear ambitions, testing the repeated condemnation of the United Nations. Germany's Angela Merkel is reportedly considering an "Iran-style containment plan" that could indicate further separation from prior disarmament demands.

Interest rates fell to fresh 2017 lows on rising demand for safe haven Treasuries as well as diminished expectations for a rate hike before the end of the year, with Federal Reserve officials citing the near-term impact from the hurricanes as well as persistently low inflation. The subdued rate outlook is contributing to the dollar's recent weakness, as the greenback fell by 10% to its lowest level since January 2015. Still, US economic data remains positive: in August, the service sector continued to expand with increases in new orders and employment; and business investment accelerated in June, with factory orders rising by 1.0% month-over-month. Globally, continued expansion in the major world economies should enable stocks to perform well as the overhangs of hurricane activity and geopolitical tensions recede.

Meriden Retirement Fund

Meriden's composite retirement portfolio continued to advance last month, lifting its FYTD gain to 2.6%, outperforming the S&P-500 through August. Financial and mid-cap portfolios weakened, while the international "relative strength" discipline lifted Meriden's performance, with Dorsey-Wright posting back-to-back 6% monthly gains. The OPEB Trust more closely tracked the indexes, advancing just over 2% through last Friday. As directed, the Healthcare trust closed its CPG Carlyle Commitments fund, and reallocated funds into the ETF-index portfolio, while the retirement funds have liquidated and reinvested its managed futures funds and the EJF Debt Opportunities hedge fund. Capital calls for Oak Hill's private equity fund continued last week, as the partnership assembles its suite of investment holdings. Both of Meriden's 2016 initiations (Oak Hill PE and Greenspring IV late-stage venture) are now approximately 50% funded, with an acceleration of commitment activity heading into the final calendar quarter.

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DJIA: 22,057.58
S&P 500: 2488.11
September 11, 2017

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