GREYCOURT

# Capital Markets Flash Report

For the Month Ending August 31, 2015

| US Equity | Aug-15 | YTD |
|---|---|---|
| S&P 500 | -6.0% | -2.9% |
| Russell 1000 | -6.0% | -2.6% |
| Russell 1000 Value | -6.0% | -6.1% |
| Russell 1000 Growth | -6.1% | 1.0% |
| Russell 2000 | -6.3% | -3.0% |
| Russell 2000 Value | -4.9% | -6.8% |
| Russell 2000 Growth | -7.6% | 0.9% |
| **Non-US Equity** | | |
| MSCI All-Country World ex-US | -7.6% | -3.9% |
| MSCI EAFE | -7.3% | 0.1% |
| MSCI Europe | -7.1% | -0.1% |
| MSCI Japan | -5.8% | 7.7% |
| MSCI EAFE Value | -7.5% | -1.7% |
| MSCI EAFE Growth | -7.2% | 1.9% |
| MSCI Emerging Markets | -9.0% | -12.6% |
| MSCI BRIC | -11.0% | -11.5% |
| **Fixed Income[1]** | | |
| U.S. Intermediate Treasuries | 0.1% | 1.3% |
| U.S. Long Treasuries | 0.0% | -1.4% |
| U.S. TIPS | -0.8% | -0.2% |
| Corporate IG Bonds | -0.6% | -1.2% |
| High-Yield Bonds | -1.7% | 0.2% |
| Tax-Exempt Bonds | 0.2% | 1.0% |
| **Currencies** | | |
| US Dollar[2] | -1.6% | 6.2% |
| Euro | 2.1% | -7.3% |
| Yen | 2.2% | -1.3% |
| Emerging Markets[3] | -3.1% | -5.8% |
| **Real Assets** | | |
| Commodities[4] | -0.9% | -12.8% |
| Energy | 0.8% | -12.3% |
| Industrial Metals | -2.8% | -19.2% |
| Gold | 3.4% | -4.8% |
| Real Estate Investment Trusts[5] | -5.8% | -6.5% |
| **Hedge Strategies[6]** | | |
| Equity Hedge | -2.9% | -0.9% |
| Equity Market Neutral | 0.1% | 2.4% |
| Event Driven | -3.0% | -3.3% |
| Relative Value Arbitrage | -0.8% | 1.3% |
| Distressed | -2.6% | -2.5% |
| Macro | -1.7% | -0.8% |

## Overview

Slowing economic growth, uncertainty about future interest rates, and central bank policy actions dominated investor attention in August. Prompted by the PBoC's surprise currency devaluation to stimulate growth and stabilize markets, volatility spiked and markets sold off as investors worried that China's economic slowdown might be larger than expected and could induce a global recession. At the same time, US GDP growth was revised up to a healthy 3.7% rate, increasing expectations for an earlier Fed rate hike and intensifying concerns about knock-on effects in currencies.

## US Equity

Domestic stocks finished down for the month with the S&P 500 falling 6% and the Russell 2000 declining 6.3% even as US stocks rallied in the final days of the month on stronger US economic data. Despite low interest rates and slow wage growth, US large caps face a headwind from the strong US dollar with an offsetting boost from lower energy prices. Evidencing the disparate impact, blended revenue growth for the S&P 500 Index, excluding energy sector stocks, is 1.5% (versus -3.4% including energy sector stocks) while earnings growth is 5.9% (versus -0.7% with energy sector stocks).

## Non-US Equity

China-linked turbulence and associated fears hurt developed and emerging market stocks as the MSCI EAFE and Emerging Market Indices fell 7.3% and 9% respectively for the month. Notwithstanding August's market corrections, Germany's positive PMI and business climate confirm strengthening European growth. Spain grew by 4% in 1Q and 2Q as its economy shifts focus from net exports to domestic demand. Emerging markets remain under pressure with weakness in export and commodity markets, recessions in Brazil and Russia, and political uncertainty in Turkey.

## Fixed Income

Markets predictably sought out safe-haven assets in reaction to falling stock and oil prices and increased volatility. Interestingly, US Treasuries did not rally materially (evidenced by the 10-year yield finishing two basis points up from the previous month's 2.19%). Narrowing swap spreads suggest that substantial sales of cash bonds by the Chinese to support its currency kept upward pressure on Treasury yields despite a broad flight to quality by other investors. High yield bonds fell 1.7% as general uncertainty and weak commodity prices drove spreads higher.

## Currencies

The US dollar lost ground against most major currencies this month (-1.6%) with the exception of emerging markets' currencies. Markets simply didn't know how to handicap the Fed's actions and that uncertainty weakened the US dollar as August's wave of currency interventions played out. The rout in oil prices and fears of economic slowing also spurred a competitive devaluation of currencies for emerging market exporters of commodities and base resources such as Vietnam and Kazakhstan.

## Real Assets

Broad-based weakness characterized commodity markets with the notable exception of energy prices that surged in the final days of the month on a downward revision of US oil output and speculation that OPEC exporters may consider cutting production. As a group, commodities fell 0.9%, bolstered by energy (+0.8%) offsetting industrial metals (-2.8%). Gold regained lost ground this month, advancing 3.4% as investors fled to the perceived safety of the precious metal. Real Estate Investment Trusts declined for the month on fears of increasing interest rates despite strong housing data.

## Hedge Strategies

Performance across hedge strategies was generally negative for the month, with equity-oriented strategies leading the decline (-2.9%) and market neutral strategies (+0.1%) posting the lone positive result. Given the markets tumultuous month, evidenced by the VIX index soaring 135%, hedge strategies have reduced leverage and gross exposures, especially to cyclical sectors such as energy, which has helped hedge funds outperform global equities by a wide margin.

Data Source: Bloomberg. MSCI returns are gross USD. Currency returns are Simple Price Appreciation (SPA) USD basis. [1] Fixed Income reported on Barclays Indices. [2] US Dollar Index [3] MSCI Emerging Markets Currency Index [4] Bloomberg Commodity Indices [5] FTSE NAREIT Equity REIT Index [6] Hedge strategy returns are SPA reported on HFRX Indices with one day lag . For complete Index Descriptions, see http://www.greycourt.com/indices.html

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