

US Equity	Dec-15	YTD
S&P 500	-1.6%	1.4%
Russell 1000	-1.8%	0.9%
Russell 1000 Value	-2.2%	-3.8%
Russell 1000 Growth	-1.5%	5.7%
Russell 2000	-5.0%	-4.4%
Russell 2000 Value	-5.3%	-7.5%
Russell 2000 Growth	-4.8%	-1.4%
Non-US Equity		
MSCI All-Country World ex-US	-1.9%	-5.3%
MSCI EAFE	-1.3%	-0.4%
MSCI Europe	-2.6%	-2.3%
MSCI Japan	0.3%	9.9%
MSCI EAFE Value	-1.9%	-5.2%
MSCI EAFE Growth	-0.8%	4.5%
MSCI Emerging Markets	-2.2%	-14.6%
MSCI BRIC	-1.8%	-13.3%
Fixed Income <sup>1</sup>		
U.S. Intermediate Treasuries	-0.2%	1.2%
U.S. Long Treasuries	0.0%	-1.2%
U.S. TIPS	-0.8%	-1.4%
Corporate IG Bonds	-0.9%	-1.3%
High-Yield Bonds	-2.5%	-4.5%
Tax-Exempt Bonds	0.7%	3.3%
Currencies		
US Dollar <sup>2</sup>	-1.9%	8.9%
Euro	3.5%	-9.6%
Yen	2.1%	-0.7%
Emerging Markets <sup>3</sup>	-1.5%	-7.2%
Real Assets		
Commodities <sup>4</sup>	-3.1%	-24.7%
Energy	-10.5%	-38.9%
Industrial Metals	3.4%	-26.9%
Gold	-0.5%	-10.9%
Real Estate Investment Trusts <sup>5</sup>	1.3%	2.8%
Hedge Strategies <sup>6</sup>		
Equity Hedge	-0.8%	-2.0%
Equity Market Neutral	0.4%	5.5%
Event Driven	-0.9%	-6.9%
Relative Value Arbitrage	-1.9%	-3.1%
Distressed	-3.6%	-11.5%
Macro	-1.1%	-1.7%

## Overview

In one of the most anticipated moves in central banking history, the Yellen-led Fed announced its first interest rate hike in nearly a decade, raising the Fed Funds rate to 25 basis points. Citing confidence in the US economy, reinforced by positive employment and growth data (third quarter GDP revised up to 2.0%), the Fed reassured markets that future rate hikes would be gradual. Despite the Fed's dovish comments, financial and commodity markets ultimately sold off amid higher volatility, as investors worried over high yield bond market liquidity and continued weakness in the energy patch.

## US Equity

Investors received a "lump of coal" this December as a "Santa Claus" rally failed to materialize, defying the historical pattern of gains in the final month of the year. The S&P 500 finished down 1.6%, fluctuating between gains and losses around the Fed rate hike and generally weak earnings reports. Six of the S&P 500's ten sectors fell this month, as gains within defensive sectors such as utilities and telecom were muted by the 9.9% loss in energy. Small cap stocks also faced downward pressure (-5.0%), but have tended historically to perform well in the year following a first rate hike by the Fed.

## Non-US Equity

International developed and emerging markets stocks declined alongside US equities as fresh signs of slowing growth in China and a lack of additional stimulus by the ECB disappointed investors. Encouraged by six quarters of positive GDP growth, the Draghi-led ECB held the pace of bond purchases steady even as it again lowered its deposit rate and extended its quantitative easing program. Within emerging markets, China's economy continued to struggle against a backdrop of declining industrial profits, corruption, and restrictions by the PBoC on cross-border capital outflows.

## Fixed Income

The rout in high yield credit markets became the primary risk focus for investors as fears over rising defaults within the energy sector and the suspension of cash redemptions from some credit-focused funds raised concerns about bond market liquidity. On the other end of the credit spectrum, intermediate and long-term Treasuries returns were flat as demand fell to its lowest level since 2009. This demand pattern pushed yields to their highest levels since September 2014. The 10-year note yield rose 6 basis points to finish at 2.27%.

## Currencies

The US dollar declined against most major currencies this month (-1.9%), with the exception of emerging markets. Even with Fed tightening underway, the greenback languished in December as markets weighed the sustainability of economic fundamentals in the US and the likelihood/timing of additional interest rate hikes in 2016. Energy-exporting currencies within the emerging markets were punished as exchange rates in Russia, Turkey, Brazil, Argentina, and Columbia fell by more than 20% this year.

## Real Assets

Real asset returns were mixed, led by gains in industrial metals and REITs, while energy commodities suffered further declines. Oil and natural gas markets are plagued by a vicious crosscurrent of unseasonably warm weather, slower non-OPEC supply adjustments, and unrelenting OPEC production. Despite cuts to current and future capital spending globally, industrial metals gained 3.4% gain, led by aluminum (+4.4%), lead (+9.0%), and copper (+4.2%) hinting that the battered sector might have found a bottom.

## Hedge Strategies

Performance results across hedge strategies were generally negative for the month. Distressed strategies led the decline while equity market neutral strategies posted a slight gain. With oil and coal prices simultaneously falling to unforeseen lows, and the value of energy company debt falling precipitously, distressed and relative value arbitrage strategies were battered, finishing down 3.6% and 1.9% respectively. Conversely, selection skill and a lack of correlation to equity and bond markets benefitted equity market neutral strategies which posted the sole 2015 gain of 5.5%.

Data Source: Bloomberg. MSCI returns are gross USD. Currency returns are Simple Price Appreciation (SPA) USD basis. <sup>1</sup> Fixed Income reported on Barclays Indices. <sup>2</sup> US Dollar Index

<sup>3</sup> MSCI Emerging Markets Currency Index <sup>4</sup> Bloomberg Commodity Indices <sup>5</sup> FTSE NAREIT Equity REIT Index <sup>6</sup> Hedge strategy returns are SPA reported on HFRX Indices with one day lag. For complete Index Descriptions, see <http://www.greycourt.com/indices.html>