GREYCOURT

Capital Markets Flash Report

For the Month Ending February 29, 2016

US Equity	Feb-16	YTD
S&P 500	-0.1%	-5.1%
Russell 1000	0.0%	-5.4%
Russell 1000 Value	0.0%	-5.2%
Russell 1000 Growth	0.0%	-5.6%
Russell 2000	0.0%	-8.8%
Russell 2000 Value	0.7%	-6.1%
Russell 2000 Growth	-0.7%	-11.5%
Non-US Equity		
MSCI All-Country World ex-US	-1.1%	-7.8%
MSCI EAFE	-1.8%	-8.9%
MSCI Europe	-1.7%	-8.2%
MSCI Japan	-2.7%	-10.7%
MSCI EAFE Value	-1.9%	-9.9%
MSCI EAFE Growth	-1.7%	-8.0%
MSCI Emerging Markets	-0.2%	-6.6%
MSCI BRIC	-2.0%	-11.8%
Fixed Income[1]		
U.S. Intermediate Treasuries	0.5%	2.2%
U.S. Long Treasuries	3.0%	8.2%
U.S. TIPS	1.1%	2.6%
Corporate IG Bonds	0.7%	1.0%
High-Yield Bonds	0.6%	-1.0%
Tax-Exempt Bonds	0.2%	1.4%
Currencies		
US Dollar[2]	-1.4%	-0.4%
Euro	0.4%	0.1%
Yen	7.5%	6.7%
Emerging Markets[3]	0.2%	-1.1%
Real Assets		
Commodities[4]	-1.6%	-3.3%
Energy	-9.3%	-15.9%
Industrial Metals	3.3%	1.9%
Gold	10.6%	16.5%
Real Estate Investment Trusts[5]	-0.4%	-3.9%
Hedge Strategies[6]		
Equity Hedge	-1.2%	-5.6%
Equity Market Neutral	-1.4%	-1.6%
Event Driven	0.1%	-3.7%
Relative Value Arbitrage	-0.4%	-2.9%
Distressed	-2.8%	-6.0%
Macro	0.2%	1.1%

Overview

Against a shifting backdrop of slowing but positive global growth, concerns about the efficacy of diverging central bank policies, and potent deflationary forces that include low energy prices and substantial at-risk debt of non-dollar obligors increasingly pressured by a strong US dollar, markets are volatile and struggling to evaluate what might lie ahead. Fears of recession and associated bear markets have predictably caused investors to seek safer havens. As a result, risk premiums have increased as risk assets are suffering significant year-to-date declines.

US Equity

US stocks were mostly flat in February. The S&P 500 finished down 0.1% as investors indicated that January's losses had sufficiently discounted current global economic and market turmoil. As the 4Q earnings season wraps up, the blended growth estimate for S&P 500 member companies is negative 3.4%; excluding energy companies, the earnings growth rate is firmly positive at 2.4%. Returns in February likely reflect a prospective understanding that the bleakest sectors combined—energy and materials—make up less than 9% of the index while info tech, consumer, and financials comprise 60% of the index.

Non- US Equity

Non-US developed stocks fell more than their emerging markets counterparts led by a 2.7% decline in Japan in US dollar terms. Eurozone economic data was mixed with fourth quarter growth (+1.5%) meeting expectations. That positive data was offset somewhat by "Brexit" concerns as well as weak PMI and inflation results. On a local currency basis, Japan fell by 9.4% given slumping consumer spending and sharp declines in corporate profits. Japan's 4Q GDP contracted 1.4%, renewing doubts about the effectiveness of Abenomics. Emerging markets were a relative bright spot in equity returns falling only 20 basis points for the month despite underperformance again by the BRICs.

Fixed Income

With oil prices, down more than 70% from their 2014 peak, energy defaults remain the primary risk focus for holders of junk-rated bonds. High yield bond prices discounted much of these fears in the fourth quarter and have fallen another 1% in 2016. Investors are grappling with staggering borrowing costs for US shale producers and reduced credit lines to energy companies as banks conduct semi-annual loan reviews. Interestingly, European high-yield remains a bright spot in global credit, benefitting from minimal energy exposure, low default rates, and consumer-oriented composition. Safe-haven Treasuries advanced for the second consecutive month, as 10-year yields fell 20 basis points to 1.74%.

Currencies

Currency markets were volatile in February. Poor Chinese and US economic data, further easing by the BoJ, and the OPEC-Russia accord precipitated an investor flight to safety favoring the Japanese Yen. The US dollar declined 1.4% against major currencies, as markets discounted the likelihood and timing of additional rate hikes in 2016 given US economic data and the responsiveness of a Yellen-led Fed to the growth and deflationary forces discussed in the overview section above.

Real Assets

Near-term hopes of establishing a floor for decimated oil prices were dashed this month as major global producers refused to cut output, even as additional capacity comes online in Iraq and Iran. Gold, however, benefitted strongly from negative interest rate policies, instability in energy prices, and uncertain election outcomes in the US. The yellow metal gained 10.6% this month and 16.5% so far in 2016.

Hedge Strategies

Performance results across hedge strategies was generally negative for the month, with the exception of macro and event driven strategies. Global macro, managed futures, and quantitative long-short equity strategies have benefitted from the increased macroeconomic and market uncertainty in 2016. Distressed strategies, however, continue to be battered by the one-two punch of collapsing oil prices, looming energy defaults, and pressure on global equities as Chinese growth has slowed.

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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