GREYCOURT

Capital Markets Flash Report

For the Month Ending March 31, 2016

US Equity	Mar-16	YTD
S&P 500	6.8%	1.3%
Russell 1000	7.0%	1.2%
Russell 1000 Value	7.2%	1.6%
Russell 1000 Growth	6.7%	0.7%
Russell 2000	8.0%	-1.5%
Russell 2000 Value	8.3%	1.7%
Russell 2000 Growth	7.7%	-4.7%
Non-US Equity		
MSCI All-Country World ex-US	8.2%	-0.3%
MSCI EAFE	6.6%	-2.9%
MSCI Europe	6.4%	-2.4%
MSCI Japan	4.9%	-6.4%
MSCI EAFE Value	6.7%	-3.8%
MSCI EAFE Growth	6.5%	-2.0%
MSCI Emerging Markets	13.3%	5.8%
MSCI BRIC	14.9%	1.4%
Fixed Income[1]		
U.S. Intermediate Treasuries	0.2%	2.3%
U.S. Long Treasuries	0.0%	8.2%
U.S. TIPS	1.5%	4.2%
Corporate IG Bonds	2.6%	3.7%
High-Yield Bonds	4.2%	3.1%
Tax-Exempt Bonds	0.3%	1.7%
Currencies		
US Dollar[2]	-3.7%	-4.1%
Euro	4.7%	4.8%
Yen	0.1%	6.8%
Emerging Markets[3]	5.2%	4.0%
Real Assets		
Commodities[4]	3.8%	0.3%
Energy	7.8%	-9.3%
Industrial Metals	0.4%	2.3%
Gold	0.0%	16.5%
Real Estate Investment Trusts[5]	10.2%	5.8%
Hedge Strategies[6]		
Equity Hedge	2.7%	-3.0%
Equity Market Neutral	-0.8%	-2.5%
Event Driven	2.4%	-1.4%
Relative Value Arbitrage	0.1%	-2.7%
Distressed	3.9%	-1.9%
Macro	-0.6%	0.6%

Overview

After months of tightening US dollar liquidity, slowing growth, increasing risk premiums, terrible returns, and a dismal start to 2016, risk assets staged an extraordinary rally in March. Investors relaxed their extreme deflationary pessimism as the Fed tamped down elevated rate hike fears and other central bankers eased aggressively. These signals, along with improved economic data (US GDP +1.4% revised from 0.7%), led to surging equity returns (especially in emerging markets), strong credit performance, a falling dollar, a sharp rebound in commodity prices, falling real yields, and a more constructive view of prospective macroeconomic and financial market performance.

US Equity

Negative momentum reversed after the FOMC meeting, restoring nearly $2.5 trillion of equity wealth. While encouraged by reduced hike expectations, investor focus has shifted toward safety and income at a reasonable price against what is now a lower-for-longer interest rate backdrop. Defensive sectors such as telecom and utilities (year-to-date +16.6% and +15.6% respectively) are favored over cyclicals (financials down 5.1%) attesting to caution while outperformance by consumer staples over consumer discretionary (+397 bps) suggests consumers are spending on what they have to versus what they might want to.

Non- US Equity

Non-US equities also rallied, led by substantial gains in emerging markets. To induce loan growth, the Draghi-led ECB announced a larger-than-expected stimulus package, broadening QE purchases to include non-bank investment-grade corporate bonds and increasing its buying pace by up to €80B. While the aggressive ECB measures were acknowledged across credit and equity markets, UK volatility remains at a six-year high suggesting the “Brexit” movement is gaining traction and strength. Despite growing concern about political stability in Brazil, BRIC nations drove the emerging markets rebound this month led by Brazil (+30.5%), India (+13.1%), and Russia (+14.7%).

Fixed Income

The flight-to-safety mindset permeating fixed-income markets in February reversed course as investors shifted from Treasuries into investment grade and high-yield corporate credits. Net inflows into US high yield since mid-February have been $13.4 billion helping push 10-year Treasury yields up 4 basis points to 1.78%. Improving global dollar liquidity has eased the pressure on global dollar borrowers somewhat, weakened the US dollar, reduced recessionary concerns, and helped increase and stabilize commodity prices. As a result, the widening of spreads that occurred in the first few months of the year has been largely reversed.

Currencies

Currency markets were calmed by Fed and ECB actions in March. Despite improving labor conditions in the US, Fed Reserve Chair Janet Yellen reassured markets there is no rush to return interest rates to historic levels. Her position pushed the dollar to multi-month lows against the currencies of its primary trading partners. The US dollar weakness has relieved pressures on EM currencies, particularly the yuan, allowing central banks to cut rates and rebuild foreign-exchange reserves. Average real effective exchange rates for EM countries (ex-China) now stand near multi-decade lows.

Real Assets

Commodity markets showed signs of life led by energy. Falling US production levels (lowest since November 2014), the weakening dollar, and scheduled talks to curb output pushed energy prices up 7.8%. Interestingly, bearish short positions on oil have been liquidated at an unprecedented pace (-67%) calling into question the staying power of the energy rally. REITs were another bright spot across global markets in March (+9.5%) as yield seeking investors turned to suitable high-yield alternatives.

Hedge Strategies

Hedge strategies exploited global equities, led by event driven and equity hedge strategies that gained 2.4% and 2.7% respectively. Strong gains in energy names and idiosyncratic positions—mainly special situations—added significant value to event driven strategies. Distressed strategies also posted strong performance, up 3.9%, taking advantage of a rebound in oil prices to reduce net exposures to energy and utilities.

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