GREYCOURT

Capital Markets Flash Report

For the Month Ending May 31, 2016

US Equity	May-16	YTD
S&P 500	1.8%	3.6%
Russell 1000	1.8%	3.5%
Russell 1000 Value	1.6%	5.4%
Russell 1000 Growth	1.9%	1.8%
Russell 2000	2.3%	2.3%
Russell 2000 Value	1.8%	5.8%
Russell 2000 Growth	2.7%	-1.2%
Non-US Equity		
MSCI All-Country World ex-US	-1.6%	0.8%
MSCI EAFE	-0.8%	-0.7%
MSCI Europe	-0.4%	-0.2%
MSCI Japan	-1.0%	-3.0%
MSCI EAFE Value	-1.4%	-1.4%
MSCI EAFE Growth	-0.2%	-0.2%
MSCI Emerging Markets	-3.7%	2.4%
MSCI BRIC	-2.9%	0.7%
Fixed Income[1]		
U.S. Intermediate Treasuries	-0.2%	2.2%
U.S. Long Treasuries	0.8%	8.5%
U.S. TIPS	-0.7%	4.1%
Corporate IG Bonds	-0.2%	4.8%
High-Yield Bonds	0.6%	8.1%
Tax-Exempt Bonds	0.3%	2.7%
Currencies		
US Dollar[2]	3.0%	-2.8%
Euro	-2.8%	2.5%
Yen	-4.0%	8.6%
Emerging Markets[3]	-3.0%	1.8%
Real Assets		
Commodities[4]	-0.2%	8.6%
Energy	3.1%	6.0%
Industrial Metals	-7.3%	1.7%
Gold	-5.8%	14.6%
Real Estate Investment Trusts[5]	2.3%	6.3%
Hedge Strategies[6]		
Equity Hedge	0.2%	-2.7%
Equity Market Neutral	0.6%	-3.8%
Event Driven	2.8%	2.0%
Relative Value Arbitrage	-0.2%	-2.1%
Distressed	2.3%	5.1%
Macro	-1.5%	-1.1%

Overview

Positive economic data and central bank action took center stage once again in May. Bolstered by upbeat economic data including surging home sales, strong durable goods sales, improved retail spending, rising oil prices, and improved personal spending, the tone of the latest Fed minutes turned hawkish, increasing expectations of a near-term rate hike. As a result, the "Fed factor" dominated markets, battering precious metals and emerging market assets while boosting the US dollar to its biggest monthly jump since 3Q 2014.

US Equity

Domestic stocks finished higher with the S&P 500 and Russell 2000 advancing 1.8% and 2.3% respectively. US GDP was revised upward for the first quarter, expanding by 0.8% as trade and inventory impacts improved. Broad concerns about earnings remain, however, as labor market pressures build and the benefits of increased, low-rate leverage fades. The S&P 500's performance continues to be driven by the technology sector as Apple (+7.2%) and Microsoft (+7.0%) delivered exceptional returns. Small cap stocks benefitted from improving optimism for US growth.

Non-US Equity

Non-US equities declined broadly this month, led by losses from emerging markets. Despite finishing slightly lower, European stocks showed signs of improvement in May led by Germany, Europe's largest economy, growing by 0.7% in 1Q at more than double 4Q's pace. Eurozone growth was slightly less robust at 0.5% (1.5% annualized) with negligible inflation. Interestingly, the ECB's bond-buying program is nearing self-imposed limits (1/3 of a country's outstanding debt) because of Irish and Portuguese bond purchases earlier this decade. Weaker than expected economic data from China combined with political turmoil in Brazil to offset the gains from improving corporate earnings in India.

Fixed Income

In stark contrast to the visceral reaction to the 2013 taper tantrum, bond markets did not overreact to the Fed's recent communications. In part, investors are discounting the Fed's sensitivity to global conditions and the effect of tightening on economies and consumers worldwide. The 10-year Treasury yield finished at 1.84%, up 1 basis point for the month. Emerging bond issuance showed signs of life as Russia and Qatar returned to international markets for the first time since 2013, issuing $1.8 billion and $9 billion of debt respectively, nearly three times analysts' expectations. In an effort to internationalize its currency, China also sold 3 billion Yuan of notes in London, its first offshore sale outside of Hong Kong.

Currencies

The US dollar surged this month, surpassing all but four of its sixteen major peers, as the likelihood of a US hike in July was priced in by markets. The Yen fell 4.0% when it became likely that a growth-retarding sales-tax increase would be postponed in the face of weak retail data. With the exception of a gain in the Brazilian Real, emerging market currencies declined broadly in reaction to prospective rising US rates, led by losses in the South African Rand followed by Colombian and Mexican Pesos.

Real Assets

Political instability in Nigeria and wild fires in Canada have created a tighter oil market so far in 2Q. Crude oil prices briefly rose above $50 per barrel in May — the first time in more than six months — benefitting from declining US stockpiles as well as production declines in mature, high-cost countries such as China and Columbia. Industrial and precious metals declined amid concern that accommodative policies in China will fail to spur demand for structural metals, and higher borrowing costs in the US pushed gold to its biggest monthly loss since November.

Hedge Strategies

Despite a slow start to the year, M&A activity (particularly in the US) has almost doubled compared to the previous month and risen by 30% compared to 12 months ago. Macro factors such as low interest rates, ample cash reserves, and tighter deal spreads have supported the flurry of M&A volume which have in turn benefitted event-driven strategies. Fixed income and distressed strategies also found support given the recovery in high yield prices and rebound in European financials.

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