GREYCOURT

Capital Markets Flash Report

For the Month Ending June 30, 2016

US Equity	Jun-16	YTD
S&P 500	0.3%	3.8%
Russell 1000	0.2%	3.7%
Russell 1000 Value	0.9%	6.3%
Russell 1000 Growth	-0.4%	1.4%
Russell 2000	-0.1%	2.2%
Russell 2000 Value	0.3%	6.1%
Russell 2000 Growth	-0.5%	-1.6%
Non-US Equity		
MSCI All-Country World ex-US	-1.5%	-0.7%
MSCI EAFE	-3.3%	-4.0%
MSCI Europe	-4.4%	-4.6%
MSCI Japan	-2.4%	-5.4%
MSCI EAFE Value	-4.9%	-6.2%
MSCI EAFE Growth	-1.8%	-1.9%
MSCI Emerging Markets	4.1%	6.6%
MSCI BRIC	3.9%	4.6%
Fixed Income[1]		
U.S. Intermediate Treasuries	1.5%	3.7%
U.S. Long Treasuries	6.1%	15.1%
U.S. TIPS	2.1%	6.3%
Corporate IG Bonds	2.0%	6.9%
High-Yield Bonds	0.6%	8.7%
Tax-Exempt Bonds	1.6%	4.3%
Currencies		
US Dollar[2]	0.3%	-2.5%
Euro	-0.2%	2.2%
Yen	7.3%	16.5%
Emerging Markets[3]	2.4%	4.3%
Real Assets		
Commodities[4]	4.1%	13.1%
Energy	2.9%	9.1%
Industrial Metals	6.8%	8.5%
Gold	8.5%	24.3%
Real Estate Investment Trusts[5]	6.9%	13.7%
Hedge Strategies[6]		
Equity Hedge	-1.7%	-4.2%
Equity Market Neutral	-1.1%	-5.0%
Event Driven	1.0%	2.8%
Relative Value Arbitrage	0.2%	-1.8%
Distressed	1.3%	6.8%
Macro	0.9%	-0.4%

Overview

The momentous decision by British voters to leave the European Union (EU) on June 23rd was unexpected by the markets and resulted in nearly $3 trillion of global stock losses in the subsequent two trading days. Confusion and fears were high as investors sought safe havens, worried about the stability of the EU, currency impacts on Japan, and the possibility that China might significantly weaken its currency. After a volatile week in which the pound has been hammered, broad markets have rebounded and are discounting weaker growth, persistently low inflation, and little-to-no increases in developed economies' interest rates.

US Equity

US equities regained nearly all of their post-Brexit losses and ended the month up slightly, supported by encouraging economic data in the US, including favorable employment trends, improved manufacturing, positive consumer spending, a strengthening housing sector, and an upward revision in first quarter US GDP (1.1% from 0.8%). Despite that encouraging news, the Fed has made clear it will not move rates higher until uncertainties surrounding the global economic outlook are resolved. The safe-haven utilities sector (+8.2%) masked the abrupt declines that took place in financials and technology stocks.

Non-US Equity

Dragged down by significant declines in European markets, non-US developed stocks were hit hardest by investors after the Brexit. Uncertainties regarding UK-EU negotiations and potential economic outcomes undermined most stocks. Interestingly, the fall in the pound has propelled the FTSE 100 back to its highest levels since April. Significant decreases in Japanese stocks on a local currency basis were mitigated for foreign investors by the Yen which surged higher on flight-to-quality. Emerging markets were resilient, ending the month up 4.1% on data that showed economic stabilization in China, stronger commodity prices, and expectations that policy rates in developed economies would stay lower for longer.

Fixed Income

Given expectations of slower growth, lower inflation, and persistently low interest rates, sovereign yields across the globe plummeted to record lows with 10-year yields in Germany, Switzerland, and Japan turning negative. US Treasuries were in high demand following Britain's vote as investors sought safe-haven from tumultuous stock markets, sending the yield on the 10-year Treasury to a year-low of 1.46% from 1.85% at the start of the month. Similarly, municipal bond yields dropped to record lows supported by increased investor demand and limited supply.

Currencies

The action in currencies was remarkable and will continue as low interest rates increasingly make currencies the channel of choice for central bankers and investors. The British pound tumbled to its lowest level in 31 years while the safe-haven Yen strengthened to levels not seen since 2013. While the pound rebounded modestly in the last few trading days of the month, the level of depreciation is providing significant benefits to UK multinationals and foreign tourists. The US dollar traded up on the Brexit but ended the month relatively flat as investors expect the Fed to delay rate hikes in response to international economic issues.

Real Assets

Commodities rallied over the month as investors pushed gold prices higher in response to the surprise UK vote and concerns about the ongoing ability of central bankers to engineer meaningful growth. For the year, gold has advanced over 24%. Industrial metals provided significant gains on increased Chinese demand. Energy returns were driven by strong increases in natural gas prices even as oil prices finished lower post-Brexit. Oil prices declined despite decreases in inventories and the potential for declining supply in Norway (oil worker strike) and Venezuela (crisis related struggles).

Hedge Strategies

Hedge fund strategies showed mixed performance for the month. Equity strategies generally struggled, especially ones that were long-biased and emphasized cyclical names including financials, especially banks in the UK. Distressed strategies, however, continued to post excellent performance as energy-related names rebounded on improving oil prices and market conditions. Macro strategies, emphasizing rates and currencies, also delivered strong gains in the month up almost 1%.

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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