GREYCOURT

Capital Markets Flash Report

For the Month Ending August 31, 2016

US Equity	Aug-16	YTD
S&P 500	0.1%	7.8%
Russell 1000	0.1%	7.8%
Russell 1000 Value	0.8%	10.2%
Russell 1000 Growth	-0.5%	5.6%
Russell 2000	1.8%	10.2%
Russell 2000 Value	2.5%	14.6%
Russell 2000 Growth	1.1%	5.9%
Non-US Equity		
MSCI All-Country World ex-US	0.7%	4.9%
MSCI EAFE	0.1%	0.9%
MSCI Europe	0.3%	-0.3%
MSCI Japan	0.4%	1.1%
MSCI EAFE Value	1.6%	0.4%
MSCI EAFE Growth	-1.4%	1.5%
MSCI Emerging Markets	2.5%	14.8%
MSCI BRIC	4.7%	14.9%
Fixed Income[1]		
U.S. Intermediate Treasuries	-0.5%	3.2%
U.S. Long Treasuries	-1.0%	16.6%
U.S. TIPS	-0.5%	6.7%
Corporate IG Bonds	0.1%	8.4%
High-Yield Bonds	2.1%	14.4%
Tax-Exempt Bonds	0.1%	4.5%
Currencies		
US Dollar[2]	0.5%	-2.6%
Euro	-0.1%	2.7%
Yen	-1.3%	16.3%
Emerging Markets[3]	0.0%	5.3%
Real Assets		
Commodities[4]	-1.8%	5.4%
Energy	3.6%	0.9%
Industrial Metals	-4.1%	7.4%
Gold	-3.4%	22.9%
Real Estate Investment Trusts[5]	-3.5%	14.0%
Hedge Strategies[6]		
Equity Hedge	0.0%	-2.0%
Equity Market Neutral	-0.3%	-4.1%
Event Driven	1.5%	7.3%
Relative Value Arbitrage	0.3%	-0.7%
Distressed	1.7%	13.2%
Macro	-1.1%	-1.2%

Overview

August was relatively quiet with market volatility nearing one-year lows. Investors focused their attention on central bankers and especially Janet Yellen's signaling that the Fed might raise rates as early as September. Despite weak growth, inflation, and total employment data, the Fed seems intent on raising rates, perhaps to assist financial institutions or deflate expanding asset bubbles. Regardless, policy risks are increasing and with the VIX at 13 and forward equity multiples elevated, it's no surprise that asset returns were muted in August.

US Equity

US equity markets were little changed even as the S&P 500 reached highs in August led by consumer discretionary stocks and steady economic data. The lack of sector breadth did, however, raise flags about further market gains. Demand for earnings growth continued to drive small cap stocks that have outperformed large cap stocks by 240 basis points year-to-date. Higher yielding value-oriented stocks also continued to outperform growth-oriented stocks as investors pursued yield and downside protection. The dispersion is clearly seen in small cap stocks with a year-to-date, value-growth differential of 870 basis points.

Non-US Equity

Restrained by negative interest rate policies and currency challenges, non-US equities grew by 0.7%. European equities were up slightly, despite persistent macroeconomic headwinds of high unemployment and risky bank balance sheets, based on expectations of central bank interventions. Emerging market stocks remained attractive given positive demand growth across several key countries. Despite weaker-than-expected lending, retail, and manufacturing data, Chinese equities moved higher given expected PBOC stimulus. As a result, EM stocks grew by 2.5% resulting in an impressive 14.8% year-to-date return.

Fixed Income

Fixed income returns were mixed as investors adjusted positions in anticipation of a possible Fed rate hike. Treasuries had their worst monthly performance in over a year as riskier investments outperformed. The demand for safe income and central bank bond buying (aka the "race to the bottom") has pushed over $16 trillion of global bonds into negative yields. To put the Fed's rate talk in perspective, 10-year inflation expectations as published by the Cleveland Fed are at 1.64% and expected tightening is proceeding against a 10-year Treasury that finished August at a 1.58% level—certainly not the stuff of heady growth.

Currencies

Despite persistent policy intervention, global currency markets were also relatively unchanged. The US dollar appreciated somewhat as a result of Janet Yellen's comments, appropriately discounted by the markets. Importantly, the trade-weighted dollar had made significant strides prior to Yellen's remarks, indicating favorable economic activity. The Yen fell, weakened by US rate-hike expectations and the BoJ's pledge of more stimulus. EM currencies were flat for the month as the Brazilian real improved given investor optimism that a new government would improve the country's finances and help end the current recession.

Real Assets

Dispersion in commodity returns was wide with oil surging over 22% (intra-month) and wheat declining over 10%. Oil prices increased as the potential for a production freeze among major producers overshadowed fear of rising inventories. A possible Fed rate hike predictably led to late-month declines with WTI crude ending the month at $44.7 per barrel. Also affected by the stronger probability of higher rates in the US was gold that declined 3.4% for the month as demand for the safe-haven asset diminished against other interest-bearing assets.

Hedge Strategies

Hedge fund performance was flat to slightly negative as expected in a period of low volatility. Equity hedge fund strategies were nil while distressed strategies advanced, up 1.7% amid growing opportunities in energy and high yield. Event driven strategies also moved higher, up 1.5%, as some of the heavily-owned positions, such as Valeant Pharmaceuticals, bounced back. Macro strategies were negative as a result of calm currency and bond markets.

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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