GREYCOURT

Capital Markets Flash Report

For the Month Ending October 31, 2016

US Equity	Oct-16	YTD
S&P 500	-1.8%	5.9%
Russell 1000	-2.0%	5.8%
Russell 1000 Value	-1.5%	8.3%
Russell 1000 Growth	-2.3%	3.5%
Russell 2000	-4.8%	6.2%
Russell 2000 Value	-3.3%	11.7%
Russell 2000 Growth	-6.2%	0.8%
Non-US Equity		
MSCI All-Country World ex-US	-1.4%	4.8%
MSCI EAFE	-2.0%	0.1%
MSCI Europe	-3.2%	-2.7%
MSCI Japan	1.3%	4.2%
MSCI EAFE Value	0.2%	1.6%
MSCI EAFE Growth	-4.3%	-1.4%
MSCI Emerging Markets	0.2%	16.6%
MSCI BRIC	1.1%	18.0%
Fixed Income[1]		
U.S. Intermediate Treasuries	-0.5%	2.9%
U.S. Long Treasuries	-4.1%	10.0%
U.S. TIPS	-0.4%	6.8%
Corporate IG Bonds	-1.0%	6.9%
High-Yield Bonds	0.4%	15.6%
Tax-Exempt Bonds	-1.0%	2.9%
Currencies		
US Dollar[2]	3.1%	-0.2%
Euro	-2.3%	1.1%
Yen	-3.3%	14.7%
Emerging Markets[3]	-0.5%	6.1%
Real Assets		
Commodities[4]	-0.5%	8.1%
Energy	-2.7%	2.3%
Industrial Metals	1.3%	14.5%
Gold	-3.3%	19.3%
Real Estate Investment Trusts[5]	-5.1%	6.6%
Hedge Strategies[6]		
Equity Hedge	-0.8%	-1.5%
Equity Market Neutral	-0.4%	-4.2%
Event Driven	-0.2%	6.9%
Relative Value Arbitrage	0.2%	-0.1%
Distressed	1.8%	15.5%
Macro	-1.3%	-2.5%

Overview

Stocks, bonds, and commodities fell broadly in October as the US dollar strengthened. Higher bond yields and a stronger dollar would normally predict rebounding growth and inflation; unfortunately, the granular economic data continue to indicate otherwise. With surging M&A activity—a sign of inadequate organic growth opportunities—a flattening yield curve, elevated stock valuations, and tougher credit conditions, economic and market cycles are moving to later stages. Throw in a contentious election, and investors are facing weaker growth, less effective central banks, less cushion in asset valuations, and multiple uncertainties.

US Equity

US stocks declined broadly this month, as the best earnings season in six quarters resulted in the worst monthly performance since January. As the month progressed, the S&P 500 fluctuated between gains and losses, as better-than-expected earnings from financial and industrial companies countered losses among healthcare and technology shares. Election and financing cost uncertainties did not help. Small cap stocks fared far worse, as disappointing earnings from Community Health Systems, GNC, and Cliff's Natural Resources, pushed the Russell 2000 down nearly 5%.

Non-US Equity

Results across non-US developed and emerging market equities were mixed this month. Japanese exporters, particularly carmakers and electric-appliance manufacturers, benefitted from a weakening yen, while a torrent of disappointing earnings announcements called the health of European companies into question once again. Emerging markets, led by BRIC nations, continued their year-to-date advance (+16.6%) this month, as signs of stabilization in China's economy and rising oil prices mitigated concerns over rising interest rates.

Fixed Income

Speculation over slowing monetary stimulus reverberated across fixed income markets in October, driving yields higher and prices precipitously lower. While the ECB and its major counterparts are expected to extend QE programs through year-end, fears of accelerating inflation and improving economic growth spurred skepticism about the longevity of global QE. Yields on 10-year gilts approached pre-Brexit levels, similar maturity German bonds advanced in tandem, and the US 10-year Treasury yield increased 24 basis points to 1.84%, a level last seen in May.

Currencies

The currency market continues to be driven by monetary-policy divergence. The US dollar advanced 3.1% against most major currencies, as further improvements in the US economy (third quarter GDP up 2.6%), pave the way for a Fed rate increase in December. Conversely, the yen has experienced its largest loss in months, as Governor Haruhiko Kuroda and the BoJ prepare to set policy in November, with expectations to maintain monetary stimulus.

Real Assets

Commodity markets were down in October even as firmer Chinese demand continued to underpin industrial metals prices and unresolved talks on reducing crude surplus weighed heavily on energy prices. Precious metals, such as gold, silver, and platinum are also under pressure as upbeat US data keeps the December Fed rate hike in play and safe-haven demand at bay. Gold bugs continue to watch for money and credit spillover into non-financial assets such as gold.

Hedge Strategies

With choppy equity markets and stabilizing oil prices, hedge strategies enjoyed rare outperformance versus global stocks in October. Bolstered by the improving outlook for oil prices, distressed strategies led gains, advancing 1.8% and bringing year-to-date performance to 15.5% - nearly triple that of the S&P 500. Interestingly, the inverse relationship between energy credit default risk and distressed hedge returns remained intact, in that as default risk increases or decreases, distressed returns tend to rise or fall in turn.

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