GREYCOURT

Capital Markets Flash Report

For the Month Ending September 30, 2016

US Equity	Sep-16	YTD
S&P 500	0.0%	7.8%
Russell 1000	0.1%	7.9%
Russell 1000 Value	-0.2%	10.0%
Russell 1000 Growth	0.4%	6.0%
Russell 2000	1.1%	11.4%
Russell 2000 Value	0.8%	15.5%
Russell 2000 Growth	1.4%	7.5%
Non-US Equity		
MSCI All-Country World ex-US	1.3%	6.3%
MSCI EAFE	1.3%	2.2%
MSCI Europe	0.9%	0.6%
MSCI Japan	1.7%	2.9%
MSCI EAFE Value	1.0%	1.4%
MSCI EAFE Growth	1.5%	3.0%
MSCI Emerging Markets	1.3%	16.4%
MSCI BRIC	1.7%	16.8%
Fixed Income[1]		
U.S. Intermediate Treasuries	0.2%	3.4%
U.S. Long Treasuries	-1.6%	14.7%
U.S. TIPS	0.6%	7.3%
Corporate IG Bonds	-0.4%	8.0%
High-Yield Bonds	0.7%	15.1%
Tax-Exempt Bonds	-0.5%	4.0%
Currencies		
US Dollar[2]	-0.6%	-3.2%
Euro	0.7%	3.4%
Yen	2.1%	18.7%
Emerging Markets[3]	1.2%	6.6%
Real Assets		
Commodities[4]	3.1%	8.6%
Energy	4.2%	5.1%
Industrial Metals	5.2%	13.0%
Gold	0.5%	23.4%
Real Estate Investment Trusts[5]	-1.5%	12.3%
Hedge Strategies[6]		
Equity Hedge	1.2%	-1.0%
Equity Market Neutral	0.5%	-3.8%
Event Driven	-0.1%	7.0%
Relative Value Arbitrage	0.2%	-0.6%
Distressed	0.1%	13.5%
Macro	-0.1%	-1.1%

Overview

Growth, discount rates, and oil prices drove asset returns in September. The final revision of 2Q US GDP came in at 1.4%, certainly reflecting anemic growth but importantly not predicting recession. The Fed did not raise rates, despite hawkish tones, because fundamentals don't support an increase. ECB and BoJ actions helped stabilize market fears. Finally, OPEC showed that it still matters, surprising markets with announced production cuts. A near-term firming of supply and prices is constructive, especially for emerging markets.

US Equity

Domestic stocks started the month with a rapid sell-off, erasing nearly $600 billion in value, in response to perceived bearish comments from key central bankers. Stocks did rebound to finish flat for the month, even as earnings and valuation concerns continue to limit market upside. The indices returned to median levels of realized volatility. Intra-index performance dispersions collapsed in September signaling prospective challenges for active managers.

Non-US Equity

Non-US stocks advanced 1.3% in US dollar terms, outpacing US stocks. Japanese equities led gains (+1.7%), advancing on the BoJ's decision to maintain its deposit rate rather than managing down longer rates. That fact bodes well for insurance companies and pension plans that struggle with low long-term yields and was rewarded. China's economy continued to improve as EM (up 16.4% year-to-date) benefitted from a stable US dollar and rates. China also took an important step in liberalizing capital markets by creating a CDS market.

Fixed Income

Fixed income markets were relatively subdued as the world's major central banks left policy rates unchanged. While the Fed might raise rates modestly by year end, the ECB and BoJ are searching for new ways to bolster their accommodative monetary policies in response to growth and disinflation challenges. The yield on the 10-year Treasury rose as high as 1.73% during the month (15 bps higher than previous month) and then fell on investor flight-to-quality amid concerns about the health of Deutsche Bank, Europe's largest investment bank.

Currencies

Uncertainty and caution punctuated currency markets in September. Japan's yen led gains among the world's major currencies as investors sought safety in response to concerns about Europe's banking sector, further fallout from Brexit, and the uncertainties associated with possible US presidential election outcomes. Emerging currencies remain attractive against long-term nominal and real values. The US dollar continued to lose ground as investors questioned the prospect of Fed policy diverging from that of Europe and Japan.

Real Assets

Commodity markets were shocked by OPEC's announcement that members would cap production to help reduce a surplus in the global crude oil market. While preliminary, the deal is expected to trim approximately 750,000 barrels per day in production, enhancing prospects for the energy industry, and boosting economies of oil exporting nations such as Russia and Saudi Arabia. Industrial metals such as copper, lead, and nickel climbed in tandem, as inventories of the hard metals continue to decline.

Hedge Strategies

Returns across hedge strategies were negligible, with the notable exception of equity hedge that advanced 1.2%. Equity hedge strategies, particularly long/short equity, benefitted from a continuing rebound in long alpha, as well as an increased level of downside protection relative to other hedge fund strategies. Net leverage across L/S strategies remained low relative to recent history, with volatility and collapsing dispersion justifying the cautious positioning.

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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