GREYCOURT

Capital Markets Flash Report

For the Month Ending December 31, 2016

US Equity	Dec-16	YTD
S&P 500	2.0%	12.0%
Russell 1000	1.9%	12.0%
Russell 1000 Value	2.5%	17.3%
Russell 1000 Growth	1.2%	7.1%
Russell 2000	2.8%	21.3%
Russell 2000 Value	4.1%	31.7%
Russell 2000 Growth	1.4%	11.3%
Non-US Equity		
MSCI All-Country World ex-US	2.6%	5.0%
MSCI EAFE	3.4%	1.5%
MSCI Europe	5.3%	0.2%
MSCI Japan	1.0%	2.7%
MSCI EAFE Value	4.6%	5.7%
MSCI EAFE Growth	2.2%	-2.7%
MSCI Emerging Markets	0.3%	11.6%
MSCI BRIC	-1.2%	12.4%
Fixed Income[1]		
U.S. Intermediate Treasuries	0.0%	1.1%
U.S. Long Treasuries	-0.5%	1.3%
U.S. TIPS	-0.1%	4.7%
Corporate IG Bonds	0.5%	4.2%
High-Yield Bonds	1.9%	17.1%
Tax-Exempt Bonds	1.2%	0.3%
Currencies		
US Dollar[2]	0.7%	3.6%
Euro	-0.7%	-3.2%
Yen	-2.2%	2.8%
Emerging Markets[3]	0.2%	3.5%
Real Assets		
Commodities[4]	1.8%	11.4%
Energy	9.0%	16.3%
Industrial Metals	-5.0%	19.9%
Gold	-1.8%	7.7%
Real Estate Investment Trusts[5]	4.5%	8.6%
Hedge Strategies[6]		
Equity Hedge	0.1%	0.1%
Equity Market Neutral	-0.9%	-4.9%
Event Driven	2.0%	11.1%
Relative Value Arbitrage	0.9%	1.1%
Distressed	2.6%	20.6%
Macro	0.3%	-3.1%

Overview

Investors continued to price in expectations of stronger growth and rising inflation after the US presidential election in November. US growth data showed its largest increase in two years while consumer confidence soared to a fifteen-year high, raising hopes of self-reinforcing improvement in business and labor market conditions. Critics point to granular economic data suggesting lower growth and note that "animal spirits" have seldom led to sustained increases in real economic output. Current valuations are far from cheap and excessive optimism generally leaves equity markets vulnerable to sell-offs.

US Equity

Trump momentum, favorable macroeconomic data that included lower unemployment, and increased inflation expectations continued to propel expectations of improved earnings and strong stocks returns in December. Small cap stocks again outpaced large cap stocks for the month and year as expectations of the Trump administration's policies—rising rates, increased inflation, and a stronger US dollar—convey a differential advantage to small cap companies. Since the election, small cap stocks have increased by nearly 14%.

Non-US Equity

Non-US developed equities advanced for the month, achieving positive absolute returns in US dollar terms for the full year. Falling currencies hurt US dollar investors although not as strikingly as in November. Despite escalating concerns of political unrest in the EU, European equities advanced 5.3%, led by strong gains in the banking sector on prospects of higher interest rates and softened regulations. Emerging market stocks held their own against trade, rate, and US dollar concerns, finishing the year up 11.6%.

Fixed Income

Given the expected policy implications of the US presidential election, global bond markets have predictably registered record outflows of almost $3 trillion. With the Fed tightening policy rates and expectations of two-to-three rate hikes in 2017, bonds experienced a significant seven-week sell-off. The 10-year US Treasury yield jumped nearly 40% post-election and ended the year at 2.45%. Investor appetite for risk remained resilient as credit was rewarded in December and high-yield bonds finished the year up 17.1%. Municipal bonds rebounded from November as markets continue to discount changes in tax policy.

Currencies

The US dollar extended its rally after the much-anticipated Fed rate hike, stronger prospects for further rate increases in 2017, and a modest uptick in inflation. The yen fell against the US dollar weighed down by deflationary economic data including a decline in consumer prices and a rise in unemployment. The euro extended its year-to-date losses, dragged lower by mounting political upheaval in Europe amid growing opposition to the EU, a surge in migration, and rising support for populism.

Real Assets

Commodities, rose 1.8% for the month and were up 11.4% for the year. Strong gains from the energy sector were offset by losses in nearly all other sectors. Oil prices moved higher on momentum from OPEC's historic decision to curb production followed by similar announcements from non-OPEC producers. In response to shrinking inventories and cold weather forecasts, natural gas prices soared higher to finish the year up 48%. Industrial metals, however, recorded losses in December based largely on rising inventories in copper.

Hedge Strategies

Most hedge strategies added to year-to-date gains with the exceptions of market neutral and global macro strategies. Distressed strategies, mainly ones focused on energy-related trades, surged alongside oil prices in the second half of the year to end 860 basis points higher than the S&P 500. Event driven strategies also recorded double-digit returns this year backed by strong global M&A activity. Equity market neutral strategies were stifled by a bullish stock market while macro strategies were limited by persistent ultra-low global interest rates.

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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