# GREYCOURT

# Capital Markets Flash Report

**For the Month Ending February 28, 2017**

| US Equity | Feb-17 | YTD |
|---|---|---|
| S&P 500 | 4.0% | 5.9% |
| Russell 1000 | 3.9% | 6.0% |
| Russell 1000 Value | 3.6% | 4.3% |
| Russell 1000 Growth | 4.2% | 7.7% |
| Russell 2000 | 1.9% | 2.3% |
| Russell 2000 Value | 1.4% | 0.7% |
| Russell 2000 Growth | 2.4% | 4.1% |
| **Non-US Equity** | | |
| MSCI All-Country World ex-US | 1.6% | 5.2% |
| MSCI EAFE | 1.4% | 4.4% |
| MSCI Europe | 1.2% | 3.3% |
| MSCI Japan | 1.1% | 4.9% |
| MSCI EAFE Value | 0.7% | 3.2% |
| MSCI EAFE Growth | 2.2% | 5.7% |
| MSCI Emerging Markets | 3.1% | 8.7% |
| MSCI BRIC | 3.2% | 9.7% |
| **Fixed Income[1]** | | |
| U.S. Intermediate Treasuries | 0.3% | 0.5% |
| U.S. Long Treasuries | 1.6% | 2.0% |
| U.S. TIPS | 0.5% | 1.3% |
| Corporate IG Bonds | 1.1% | 1.2% |
| High-Yield Bonds | 1.5% | 2.9% |
| Tax-Exempt Bonds | 0.7% | 1.4% |
| **Currencies** | | |
| US Dollar[2] | 1.6% | -1.1% |
| Euro | -2.1% | 0.6% |
| Yen | 0.0% | 3.8% |
| Emerging Markets[3] | 1.7% | 3.8% |
| **Real Assets** | | |
| Commodities[4] | 0.2% | 0.3% |
| Energy | -2.7% | -10.1% |
| Industrial Metals | 2.2% | 9.9% |
| Gold | 3.6% | 8.7% |
| Real Estate Investment Trusts[5] | 4.0% | 4.2% |
| **Hedge Strategies[6]** | | |
| Equity Hedge | 1.4% | 2.2% |
| Equity Market Neutral | 0.1% | 0.9% |
| Event Driven | 1.4% | 2.5% |
| Relative Value Arbitrage | 0.5% | 1.2% |
| Distressed | 1.7% | 2.0% |
| Macro | 1.4% | 0.4% |

## Overview

Increasing nominal global growth, driven by improving real economic expansion and headline inflation, continues to propel strong returns in global stock and bond markets. Central bank willingness to remain accommodative—currently discounted by investors—and perceptions that the new administration's policies will be supportive of growth, reinforce the post-election trend in asset performance. Unanticipated tightening represents a significant corrective force.

## US Equity

US equity markets have focused on positive corporate earnings results, improved manufacturing data, and a modest expansion in capital expenditures. Almost 75% of reporting companies in the S&P 500 have beaten their earnings-per-share estimates and over 50% exceeded their projections for profits. Valuations are high and reflect rosy expectations regarding the timing and success of implementing administration policies. Recent defensive sector performance and lagging share volumes are important indicators of concern.

## Non-US Equity

Despite growing concerns over political risks in the EU, European stock markets moved higher on momentum from strong corporate earnings, positive manufacturing data, and increasing inflation. Stock markets in Japan also added to year-to-date gains boosted by growth in exports and business investment backed by a weaker yen. Emerging market equities climbed higher on strong fundamentals and expectations the Fed will hold off on a March rate hike, bringing year-to-date returns to double digits.

## Fixed Income

Fixed income markets moved higher, led by long-duration Treasuries and high yield bonds. Bond vigilantes took a collective post-election breath, consistent with the trends in nominal growth and the likelihood that this late-stage credit cycle will be extended. The 10-year Treasury yield edged lower on the month, ending at 2.36%. High yield bonds moved higher on economic expectations and investors' pursuing better yields relative to investment grade options. Tax-exempt municipals extended gains on positive fundamentals.

## Currencies

The US dollar found some footing and ended the month higher, boosted by a hawkish Fed tone. The Euro moved lower amid political uncertainty regarding the upcoming French election. The Yen ended flat for the month, with a slight flight-to-quality bump ahead of President Trump's speech to Congress. Emerging market currencies climbed higher on investor expectations of accelerating global growth and a commodity market rebound.

## Real Assets

Commodities were up modestly with gains in precious metals offset by losses in natural gas. Oil prices moved higher on the month driven by the belief that OPEC and other non-OPEC producing countries will continue to slow production. Natural gas plunged over 11% based on strong supply and unusually warm weather patterns hampering demand. Gold and other precious metals rose higher, supported by concerns regarding political uncertainty in Europe and the US.

## Hedge Strategies

Hedge strategies posted positive results with equity hedge and event-driven strategies gaining the most year-to-date. Equity hedge strategies continued their post-election momentum alongside global equity markets. Event-driven strategies benefitted from continued strength in M&A activity and positive returns in the distressed segment, most notably in the energy and financials sectors. Macro strategies were among the top performers this month led by gains from systematic trading managers.

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