GREYCOURT

Capital Markets Flash Report

For the Month Ending January 31, 2017

US Equity	Jan-17	YTD
S&P 500	1.9%	1.9%
Russell 1000	2.0%	2.0%
Russell 1000 Value	0.7%	0.7%
Russell 1000 Growth	3.4%	3.4%
Russell 2000	0.4%	0.4%
Russell 2000 Value	-0.7%	-0.7%
Russell 2000 Growth	1.6%	1.6%
Non-US Equity		
MSCI All-Country World ex-US	3.6%	3.6%
MSCI EAFE	2.9%	2.9%
MSCI Europe	2.1%	2.1%
MSCI Japan	3.7%	3.7%
MSCI EAFE Value	2.5%	2.5%
MSCI EAFE Growth	3.4%	3.4%
MSCI Emerging Markets	5.5%	5.5%
MSCI BRIC	6.3%	6.3%
Fixed Income[1]		
U.S. Intermediate Treasuries	0.2%	0.2%
U.S. Long Treasuries	0.4%	0.4%
U.S. TIPS	0.8%	0.8%
Corporate IG Bonds	0.1%	0.1%
High-Yield Bonds	1.5%	1.5%
Tax-Exempt Bonds	0.7%	0.7%
Currencies		
US Dollar[2]	-2.6%	-2.6%
Euro	2.7%	2.7%
Yen	3.7%	3.7%
Emerging Markets[3]	2.1%	2.1%
Real Assets		
Commodities[4]	0.1%	0.1%
Energy	-7.6%	-7.6%
Industrial Metals	7.5%	7.5%
Gold	5.0%	5.0%
Real Estate Investment Trusts[5]	0.2%	0.2%
Hedge Strategies[6]		
Equity Hedge	0.9%	0.9%
Equity Market Neutral	0.8%	0.8%
Event Driven	1.2%	1.2%
Relative Value Arbitrage	0.8%	0.8%
Distressed	0.7%	0.7%
Macro	-0.6%	-0.6%

Overview

Proposed pro-growth fiscal policies, including changes to corporate tax rates and a reduced regulatory burden, dominated investor focus during the first four weeks of the new year. Post-election exuberance pushed US equity markets to record highs, despite growing turmoil amongst historically strong trade partners. Real economic growth fell short of expectations during the fourth quarter (1.9% vs 2.2%) as net exports predictably declined in response to a strong US dollar and tepid global growth. Business investment, a harbinger of growth, continues to improve, signaling underlying momentum in the economy.

US Equity

Better-than-expected corporate earnings and a pro-growth agenda propelled domestic equities in January. Rancor and confusion over immigration and trade policies, however, hit stock prices in the final days of the month. Profits for S&P 500 companies rose at the fastest pace in two years (+1.9%), reassuring many alarmed by valuations not seen since the dot-com bubble. Recent trends in performance by market cap reversed this month as large cap stocks outpaced small caps largely based on expected lower corporate tax taxes. Despite losing ground this month, small cap stocks have returned 10% since the US presidential election.

Non-US Equity

US-dollar returns of non-US stocks were very strong, outpacing domestic equity returns as the US dollar had its worst start since 1987. On a local currency basis, however, non-US stocks were up 1.04%. Emerging markets significantly outperformed non-US developed markets, measured in local currencies, returning almost 4% versus the EAFE Index that returned only 10 basis points for the month. The spread in returns highlighted differential growth and inflation expectations for emerging markets versus non-US developed markets.

Fixed Income

Fixed income returns were generally muted, with the exception of high yield bonds (+1.5%), tax-exempt bonds, and TIPs that benefited from growth-related expectations of improved credit worthiness (improved earnings and stronger balance sheets) and reflation. Treasuries finished up marginally as the 10-year yield ended the month flat at 2.45%. Yields for comparable maturity government bonds in most euro-zone countries increased modestly.

Currencies

The US dollar fell 2.6%, having its worst start since 1987. The fall resulted from fears of protectionism and comments from the administration indicating a desire to see a weaker US dollar over time. Lower-than-expected US growth in the fourth quarter also provided a post-election reality check that exacerbated the dollar's decline. The yen benefitted from perceptions of relative safety, negating mid-month losses while emerging market currencies appreciated as investors discounted Turkey's sovereign debt downgrade by Fitch.

Real Assets

Commodity returns were bifurcated in January. Oil prices fell broadly on doubts regarding OPEC and other oil producing nations' willingness to follow through on output cuts. Natural gas added to energy's malaise as mild weather and high inventories pushed prices down 16.3%. Offsetting these returns were gains in industrial metals based on speculation that Chinese demand for imports would outweigh concerns over economic sustainability. Precious metals, particularly platinum (+10%), also rallied on increasing global vehicle sales.

Hedge Strategies

Hedge strategy winners in 2016 carried forward into 2017. Event driven and equity hedge strategies led gains, while activist and those focused on rescuing troubled companies returned 0.7% (after outpacing the S&P 500 by 860 basis points last year). Credit strategies also delivered positive returns, as did equity market neutral funds. Macro strategies were down modestly for the month as capturing post-election volatility proved challenging.

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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