GREYCOURT

Capital Markets Flash Report

For the Month Ending May 31, 2017

US Equity	May-17	YTD
S&P 500	1.4%	8.7%
Russell 1000	1.3%	8.5%
Russell 1000 Value	-0.1%	3.0%
Russell 1000 Growth	2.6%	14.3%
Russell 2000	-2.0%	1.5%
Russell 2000 Value	-3.1%	-2.9%
Russell 2000 Growth	-0.9%	6.3%
Non-US Equity		
MSCI All-Country World ex-US	3.3%	14.1%
MSCI EAFE	3.8%	14.4%
MSCI Europe	5.1%	17.2%
MSCI Japan	3.0%	8.9%
MSCI EAFE Value	2.5%	11.2%
MSCI EAFE Growth	5.2%	17.8%
MSCI Emerging Markets	3.0%	17.3%
MSCI BRIC	2.1%	16.0%
Fixed Income[1]		
U.S. Intermediate Treasuries	0.4%	1.5%
U.S. Long Treasuries	2.0%	5.0%
U.S. TIPS	0.0%	1.8%
Corporate IG Bonds	1.0%	2.8%
High-Yield Bonds	0.9%	4.8%
Tax-Exempt Bonds	1.6%	3.9%
Currencies		
US Dollar[2]	-2.1%	-5.2%
Euro	3.2%	6.9%
Yen	0.7%	5.6%
Emerging Markets[3]	1.1%	6.1%
Real Assets		
Commodities[4]	-1.4%	-5.4%
Energy	-3.3%	-16.9%
Industrial Metals	-1.0%	2.9%
Gold	0.4%	10.2%
Real Estate Investment Trusts[5]	-0.1%	2.9%
Hedge Strategies[6]		
Equity Hedge	-0.6%	2.8%
Equity Market Neutral	-1.4%	0.2%
Event Driven	0.7%	4.4%
Relative Value Arbitrage	0.3%	1.6%
Distressed	-0.2%	2.0%
Macro	0.2%	-0.6%

Overview

Markets are rediscounting expectations of persistent US outperformance that were based on disproportionate relative corporate earnings, higher relative real interest rates, and an exceptionally strong US dollar. Economic data reflect that nominal growth rates outside of the US are catching up and that the lagged effects of stimulative monetary policies are benefitting most those countries which have been most out of favor. As a result, US stocks underperformed non-US stocks, long-duration Treasuries are up, and the US dollar has returned to pre-election levels. Tightening will take center stage prospectively when central banks respond to the successful outcomes of their prior policy actions.

US Equity

Large cap growth stocks had strong absolute returns in May, pushing large cap indices higher in what was another good month. Breadth in performance, however, is narrowing as the FAANGs are nearing 12% of total S&P 500 market capitalization. Tech stocks including Apple, Amazon, Facebook, Microsoft and Alphabet now comprise one-third of year-to-date S&P 500 gains. Small cap stocks struggled as investors factored in improving global growth that favors larger multinationals and repriced the potential impacts of President Trump's policies.

Non- US Equity

Non-US equities enjoyed strong absolute returns on a local-currency basis and boosted by a weakening US dollar, outperformed US stocks for the month. Improving nominal growth and accommodative central banking policies in Europe and Japan continued to support economic strengthening against the US. European equities led gains based on improving corporate margins, earnings, and manufacturing data at multi-year highs. A recovery in exports bolstered growth in Japan by 2.2% during 1Q, adding to the longest string of gains in a decade. Emerging market equities continued their outstanding run, discounting nominal growth over the political crisis in Brazil and shadow banking concerns in China.

Fixed Income

Longer duration Treasuries posted strong returns as US rates fell on a relative basis and markets rethought inflation. Tax-exempt bonds benefitted materially from robust demand against expectations of limited supply over the summer. After tremendous stimulus, debt and deficits, a run in the dollar, and improved unemployment, the lack of significant reflation resulted in flat performance for TIPs. High yield performed well given growth, rate, and inflation data; nonetheless, risk premia remain low as the demand for income has not abated.

Currencies

US dollar weakness persisted this month as expectations for an aggressively tighter Federal Reserve responding to expansionary fiscal policy dissipated. The Euro enjoyed further gains against the dollar on positive PMI and business climate data, Macron's presidential win, and growing possibility of the ECB normalizing monetary policy. Emerging market currencies also benefitted from a weaker US dollar, despite stalled commodity prices, as economic growth continues to improve.

Real Assets

Commodity prices remain subdued. The agreement between OPEC and Russia to extend output limits through March 2018 failed to lift oil prices, indicating that markets fully discounted this eventuality. Weaker demand and bearish sentiment on China were headwinds for industrial metals, with the notable exception of aluminum advancing nearly 13% for the year. Despite a modest gain for the month, a weaker US dollar, lower Treasury yields, and central bank buying have supported the 10% return in gold so far in 2017.

Hedge Strategies

Results for hedge strategies were mixed in May as equity market neutral-strategies declined, followed by equity hedge and distressed strategies. Event driven strategies were favored because of rising interest rates, uncertainty around tax reform, and potentially disruptive trade discussions—an opportunistic environment for spinouts, merger transactions, and corporate restructurings.

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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