GREYCOURT

Capital Markets Flash Report

For the Month Ending June 30, 2017

US Equity	Jun-17	YTD
S&P 500	0.6%	9.3%
Russell 1000	0.7%	9.3%
Russell 1000 Value	1.6%	4.7%
Russell 1000 Growth	-0.3%	14.0%
Russell 2000	3.5%	5.0%
Russell 2000 Value	3.5%	0.5%
Russell 2000 Growth	3.4%	10.0%
Non-US Equity		
MSCI All-Country World ex-US	0.4%	14.5%
MSCI EAFE	-0.1%	14.2%
MSCI Europe	-1.1%	15.9%
MSCI Japan	1.1%	10.1%
MSCI EAFE Value	0.3%	11.6%
MSCI EAFE Growth	-0.6%	17.0%
MSCI Emerging Markets	1.1%	18.6%
MSCI BRIC	0.8%	16.9%
Fixed Income[1]		
U.S. Intermediate Treasuries	-0.3%	1.2%
U.S. Long Treasuries	0.4%	5.4%
U.S. TIPS	-1.0%	0.9%
Corporate IG Bonds	0.2%	3.0%
High-Yield Bonds	0.1%	4.9%
Tax-Exempt Bonds	-0.4%	3.6%
Currencies		
US Dollar[2]	-1.3%	-6.4%
Euro	1.6%	8.6%
Yen	-1.4%	4.1%
Emerging Markets[3]	-0.2%	5.9%
Real Assets		
Commodities[4]	-0.3%	-5.6%
Energy	-3.7%	-20.0%
Industrial Metals	3.4%	6.3%
Gold	-2.5%	7.4%
Real Estate Investment Trusts[5]	2.0%	4.9%
Hedge Strategies[6]		
Equity Hedge	0.8%	3.6%
Equity Market Neutral	0.6%	0.7%
Event Driven	0.0%	4.6%
Relative Value Arbitrage	0.1%	1.6%
Distressed	0.6%	2.6%
Macro	0.5%	0.2%

Overview

Investor focus shifted to monetary policy late in the month as several central banks signaled reversals in long-standing policies to lower interest rates and increase system-wide liquidity. Not surprisingly, global equities and bonds fell sharply as cash markets prepared for rising yields. Backed by nine years of stimulative support, global growth continues to improve. Nonetheless, with central banks signaling the end of an era, investors will nervously attend to current business and debt cycles looking for signs of economic and market downturns.

US Equity

Despite fading optimism over President Trump's pro-growth agenda and unclear timing of tax reform, small cap stocks rebounded strongly this month led by consumer staples and healthcare. Large caps stocks increased modestly but underperformed small caps by 280 basis points. Large cap value stocks reversed trend against large growth stocks as financials and healthcare stocks moved higher, boosted by an increase in the Fed Funds rate and the anticipated release of the Senate's healthcare bill. Prospects for continued economic growth are supportive, even as concerns about global monetary policies weigh on investors.

Non-US Equity

Improving nominal growth, a weakening US dollar, and accommodative monetary policies have supported non-US equity returns this year. That trend continued broadly through June, losing some steam at the end of the month. European equities posted their worst 3-day selloff since early November when the ECB discussed a potential winding down of its stimulus efforts. In local currency terms, European equities ended the month down 2.5%. Japanese equities, on the other hand, benefitted from a falling yen. Emerging markets equities continued to appreciate on positive fundamentals.

Fixed Income

Global government bonds sold off last week as investors weighed tightening messages from the major central banks. Yields spiked with Germany's 10-year bund yield jumping from 0.26% the week prior to 0.43% while Britain's 10-year gilt yield increased to 1.26% from 1.04%. The 10-year Treasury yield ended the month at 2.31%, up from its intra-month low of 2.14%. Predictably, the breakeven inflation rate for 10-year US TIPS fell to its lowest level since November reflecting increased concerns about expected growth and inflation.

Currencies

The US dollar fell over 1% last week and is down 6.4% year-to-date surprising the markets as economic growth in other countries is improving faster than in the US. The euro surged to its highest level against the US dollar in over a year pushed by hawkish comments from the ECB President that markets interpreted as indicative of improving growth and higher relative interest rates. In contrast, the BoJ has not indicated plans to taper and continued its ultra-easy policy stance sending the yen lower on the month.

Real Assets

Commodity prices extended year-to-date losses with energy markets feeling the most pressure. Oil prices tumbled on reports of rising US inventories, despite production cuts from OPEC and other large oil producing nations. Gold and other precious metals moved lower amid the spike in global government bond yields. Industrial metals such as lead and nickel rose higher on signs of tighter supply, increased demand, and a lower US dollar. Positive fundamentals in housing data moved REITs higher on the month.

Hedge Strategies

Hedge strategies collectively added to year-to-date gains this month. Equity hedge strategies received a small boost when volatility spiked late in the month in response to hints of central bank tightening. Event driven strategies were flat with losses from special situation strategies offsetting gains from merger arbitrage deals. Bullish and bearish bets on crude oil prices have converged massively since February with long positions trending downward and short positions trending upward, a sign that oil prices might have found a floor.

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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