GREYCOURT

Capital Markets Flash Report

For the Month Ending September 30, 2017

US Equity	Sep-17	YTD
S&P 500	2.1%	14.2%
Russell 1000	2.1%	14.2%
Russell 1000 Value	3.0%	7.9%
Russell 1000 Growth	1.3%	20.7%
Russell 2000	6.2%	10.9%
Russell 2000 Value	7.1%	5.7%
Russell 2000 Growth	5.4%	16.8%
Non-US Equity		
MSCI All-Country World ex-US	1.9%	21.6%
MSCI EAFE	2.5%	20.5%
MSCI Europe	3.3%	23.4%
MSCI Japan	2.1%	14.6%
MSCI EAFE Value	3.1%	18.2%
MSCI EAFE Growth	1.9%	22.9%
MSCI Emerging Markets	-0.4%	28.1%
MSCI BRIC	0.9%	33.2%
Fixed Income[1]		
U.S. Intermediate Treasuries	-0.6%	1.6%
U.S. Long Treasuries	-2.2%	6.0%
U.S. TIPS	-0.6%	1.7%
Corporate IG Bonds	-0.3%	3.9%
High-Yield Bonds	0.9%	7.0%
Tax-Exempt Bonds	-0.5%	4.7%
Currencies		
US Dollar[2]	0.4%	-8.9%
Euro	-0.8%	12.3%
Yen	-2.3%	4.0%
Emerging Markets[3]	-0.8%	7.9%
Real Assets		
Commodities[4]	-0.2%	-3.5%
Energy	3.5%	-12.2%
Industrial Metals	-3.8%	16.8%
Gold	-2.7%	10.7%
Master Limited Partnerships[5]	0.7%	-5.6%
Real Estate Investment Trusts[6]	-0.8%	6.0%
Hedge Strategies[7]		
Equity Hedge	1.6%	6.8%
Equity Market Neutral	0.4%	2.6%
Event Driven	0.7%	6.5%
Relative Value Arbitrage	0.1%	2.7%
Distressed	0.0%	2.3%
Macro	-1.0%	-0.1%

Overview

Investors turned their focus in September to strong global growth and earnings data, possible pro-growth fiscal reform in the US that would lower corporate tax rates, and the Fed's plan to raise interest rates and "normalize" its balance sheet over time. Importantly, second quarter US growth was revised up once-again to 3.1% based on the strength of increased equipment spending. Responding to these positive cyclical indicators and a rejuvenated optimism, markets adjusted prior expectations and reversed year-to-date trends across many risk assets.

US Equity

After months of stalled initiatives and geopolitical tensions, renewed optimism (growth and taxes) supported a rotation from large-cap stocks into small-cap stocks and from growth into value stocks. While tax cuts remain uncertain, and subject to the vagaries of Washington, small cap company stocks outperformed large caps, in part because they start from a higher median tax rate (31.9% versus 28%) and would benefit most from a policy change. Likewise, value stocks, typically found in higher tax paying industries such as financials and materials, outpaced growth stocks found in industries such as technology and healthcare.

Non-US Equity

On a local-currency basis, non-US developed stocks continued to outperform US stocks, reflecting improving nominal growth and profit differentials. Strength in the US dollar, however, reduced gains when translated into US dollars. European stocks led on better-than-expected business confidence data, an improving job market, and current account surpluses. Japanese stock returns followed in direction and magnitude, reaching two-year highs despite growing tensions with North Korea. Bullish momentum across emerging markets took a breather this month to reassess Fed tightening and possible renewed strength in the US dollar.

Fixed Income

The implication of tightening central banks was not lost on fixed income markets this month, even as nominal growth, stabilizing energy prices, and fiscal reform supported higher yielding bonds. Long-dated Treasuries led declines over rate and inflation fears and the 10-year closed at a 2.33% yield. The issue in bond markets, however, is that technical factors resulting from the impacts of QE are leading to yields that don't adequately discount nominal global growth rates. As a result, significant duration risk still exists across rates markets.

Currencies

The US dollar finished ahead of most major currencies this month, receiving a shot in the arm from prospective tax reform and new data showing that the US economy grew faster than previously thought during the second-quarter. The Euro drifted lower versus the dollar in the wake of indecisive German elections and a more hawkish posture by the Federal Reserve. Emerging market currencies, having enjoyed a strong rally in 2017, cooled in September over worries of rising global borrowing costs.

Real Assets

Commodity results were mixed in September. Buoyed by global demand and a surprise drop in US stockpiles post Hurricane Harvey, WTI and Brent crude prices rose 7.7% and 7.4% respectively. Industrial metals, particularly iron ore, however, were caught between rising supply and lower demand, as China enforces iron plant closures as part of their winter clean-up campaign to curb pollution. Gold prices were predictably volatile in the presence of geopolitical tensions and Fed tightening with US dollar strength.

Hedge Strategies

Returns across hedge strategies were modest, apart from equity hedge and macro strategies that returned +1.6% and -1% respectively. Equity hedge returns, particularly long/short equity, was boosted by strong momentum in underlying markets. Global macro strategies continue to struggle, however, as improving economic conditions have not generated significantly higher bond yields and monetary policy divergence between the ECB and Fed has not brought meaningful dollar appreciation vs the Euro.

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] Alerian MLP Index [6] FTSE NAREIT Equity REIT Index [7] 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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