GREYCOURT

Capital Markets Flash Report

For the Month Ending October 31, 2017

US Equity	Oct-17	YTD
S&P 500	2.3%	16.9%
Russell 1000	2.3%	16.8%
Russell 1000 Value	0.7%	8.7%
Russell 1000 Growth	3.9%	25.4%
Russell 2000	0.9%	11.9%
Russell 2000 Value	0.1%	5.8%
Russell 2000 Growth	1.5%	18.6%
Non-US Equity		
MSCI All-Country World ex-US	1.9%	23.9%
MSCI EAFE	1.5%	22.3%
MSCI Europe	0.5%	24.0%
MSCI Japan	4.6%	19.9%
MSCI EAFE Value	0.8%	19.2%
MSCI EAFE Growth	2.3%	25.7%
MSCI Emerging Markets	3.5%	32.6%
MSCI BRIC	3.0%	37.2%
Fixed Income[1]		
U.S. Intermediate Treasuries	-0.1%	1.4%
U.S. Long Treasuries	-0.1%	5.9%
U.S. TIPS	0.2%	1.9%
Corporate IG Bonds	0.3%	4.2%
High-Yield Bonds	0.4%	7.5%
Tax-Exempt Bonds	0.2%	4.9%
Currencies		
US Dollar[2]	1.6%	-7.5%
Euro	-1.4%	10.7%
Yen	-1.0%	3.0%
Emerging Markets[3]	-0.1%	7.8%
Real Assets		
Commodities[4]	2.0%	-1.5%
Energy	2.5%	-10.0%
Industrial Metals	5.8%	23.6%
Gold	-1.0%	9.6%
Master Limited Partnerships[5]	-4.1%	-9.5%
Real Estate Investment Trusts[6]	0.1%	6.2%
Hedge Strategies[7]		
Equity Hedge	0.7%	7.8%
Equity Market Neutral	-0.4%	2.4%
Event Driven	-0.5%	6.0%
Relative Value Arbitrage	0.4%	3.2%
Distressed	-0.9%	1.5%
Macro	1.5%	1.4%

Overview

Global equity markets continue to trade at or near record highs as investors respond to a new and self-reinforcing period of global expansion. Supporting data include positive earnings, low interest and inflation rates, and volatility—as measured by the VIX fear index—hitting record lows. The US economy grew at annual rate of 3% during the third quarter, aided by an increase in personal consumption expenditures and consumer confidence at its highest level since 2000. Although central banks will eventually tighten, they remain accommodative against a backdrop of modest inflation and asymmetric risks to tightening.

US Equity

US equity markets celebrated the 30th anniversary of Black Monday by hitting all-time highs, focused on strong corporate earnings, the lowest unemployment rate since 2001, and positive developments in tax legislation. The DJIA beat rival indices as global growth boosted blue-chip exporters. Small cap stocks increased less than large cap stocks, despite the possibility of tax reforms, as recent reports indicate that corporate tax cuts would likely occur in phases over several years. Growth stocks added to their year-to-date outperformance over value stocks (+1,200 basis points) supported by buoyant earnings for tech stocks.

Non-US Equity

Non-US developed stocks outperformed US markets on a local-currency basis. Japanese stock markets hit 20-year highs this month, supported by strong growth that is the product of aggressive, and now-successful, policies by the BoJ to pressure banks to lend and induce borrowing across the economy. European equities received a late-month boost when the ECB announced plans for an open-ended monetary program designed with gradual tapering. Emerging market equities added to strong year-to-date gains, propelled by strong returns from India and Korea.

Fixed Income

Responding to growth and positive US tax reform developments, bond yields increased. The 10-year Treasury rose to 2.47% but ended the month at 2.38%, as markets reacted to dovish assumptions that President Trump would appoint Jerome Powell as the next Fed Chair. Bonds yields generally, and especially in Europe and Japan, continue to inadequately discount growth as central bank QE policies repress rates. This divergence is ultimately unstable. Losses on Puerto Rico bonds accelerated as investors assessed the extent of damage post-Hurricane Maria. Nearly 12% of Puerto Rico's outstanding debt changed hands in October.

Currencies

The US dollar advanced against most major currencies on renewed prospects of tax reform and additional tightening by the Fed. The yen fell to 3-month lows late in the month following Shinzo Abe's coalition victory in the recent parliamentary election. This victory validated the continued path of aggressive and successful monetary easing in Japan. The euro also weakened over political unrest in Spain and Italy and the ECB's recent announcement that included an extension of asset purchases through September of next year (albeit at a reduced rate).

Real Assets

The broad-based commodity index advanced 2.0% in October with mixed performance from the five main sub-sectors. Industrial metals added to impressive year-to-date gains as supply, resulting from inadequate past capex spending, is struggling to meet strong demand resulting from the pickup in nominal global growth. Oil prices ticked higher, supported by tighter production (OPEC recently reported compliance with pledged production cuts) and stronger global demand. MLPs declined -4.1% this month as investors responded negatively to announced distribution cuts.

Hedge Strategies

Performance for most major hedge strategies was mixed with distressed strategies down 0.9% and macro strategies up 1.5%. Distressed strategies moved lower from exposure to consumer and energy sectors while macro strategies received a boost on gains from systematic trend-following managers and a stronger US dollar. The hedge fund industry continues to show improvement from a dismal 2016 that was marked by record outflows and shut-downs; third quarter data shows positive inflows and record high asset levels of $3.15 trillion.

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