GREYCOURT

Capital Markets Flash Report

For the Month Ending December 31, 2017

US Equity	Dec-17	YTD
S&P 500	1.1%	21.8%
Russell 1000	1.1%	21.7%
Russell 1000 Value	1.4%	13.6%
Russell 1000 Growth	0.8%	30.2%
Russell 2000	-0.4%	14.6%
Russell 2000 Value	-1.0%	7.8%
Russell 2000 Growth	0.1%	22.1%
Non-US Equity		
MSCI All-Country World ex-US	2.3%	27.8%
MSCI EAFE	1.6%	25.6%
MSCI Europe	1.5%	26.2%
MSCI Japan	0.7%	24.4%
MSCI EAFE Value	1.6%	22.1%
MSCI EAFE Growth	1.7%	29.3%
MSCI Emerging Markets	3.6%	37.8%
MSCI BRIC	2.9%	42.0%
Fixed Income[1]		
U.S. Intermediate Treasuries	0.0%	1.1%
U.S. Long Treasuries	1.7%	8.5%
U.S. TIPS	0.9%	3.0%
Corporate IG Bonds	0.7%	4.6%
High-Yield Bonds	0.3%	7.5%
Tax-Exempt Bonds	1.0%	5.4%
Currencies		
US Dollar[2]	-1.0%	-9.9%
Euro	0.8%	14.1%
Yen	-0.1%	3.8%
Emerging Markets[3]	1.8%	11.4%
Real Assets		
Commodities[4]	2.9%	0.7%
Energy	3.9%	-4.3%
Industrial Metals	9.2%	29.4%
Gold	2.7%	12.8%
Master Limited Partnerships[5]	4.7%	-6.5%
Real Estate Investment Trusts[6]	-0.3%	8.7%
Hedge Strategies[7]		
Equity Hedge	1.1%	10.1%
Equity Market Neutral	-0.8%	1.7%
Event Driven	0.3%	6.4%
Relative Value Arbitrage	0.7%	3.9%
Distressed	1.0%	3.2%
Macro	0.8%	2.5%

Overview

The controversial Tax Cuts and Jobs Act continues to dominate investor attention entering 2018. Love it or loath it, anticipation of its passage helped drive exceptional returns across risk assets. Moreover, it will almost certainly increase growth, profits, spending, and investment in the near-term. Because the markets have largely priced in its benefits, however, the impact on future returns will be muted. With central banks poised to raise rates and markets priced for perfection, investors should monitor and manage their enthusiasm.

US Equity

US stocks continued to break daily records in December, ending the year up 21.8%. Stocks were supported by favorable macroeconomic conditions, including strong employment, real economic growth, and rising inflation. Most stocks received a boost post-tax reform when the anticipated reduction in the corporate tax rate was confirmed, dropping from 35% to 21%, marking its lowest point since 1939. Markets rewarded the stocks of companies with high effective tax rates in domestically focused sectors such as consumer discretionary and consumer staples that will benefit most from the tax rate reduction.

Non-US Equity

Non-US equities continued to climb higher on improved nominal growth, strong corporate earnings, accommodative central bank policies in Europe and Japan, and the largest single-year decline in the US dollar since 2007. For the year, non-US stocks outperformed US stocks by over 600 basis points. Across non-US stocks, emerging markets equities were the strongest performers, up 37.8% for the year. These returns were driven by strong economic growth, surging profits, attractive multiples, and improving prices in energy and commodity markets.

Fixed Income

Bond yields rose in response to favorable economic data and the passage of tax reform. The 10-year Treasury yield jumped in the days following passage of the tax bill and ended the month at 2.4%. As markets expected, the US Fed carried through its third interest rate hike of 2017 in response to a strong labor market. The Treasury yield curve flattened considerably, measured by a 51 basis points spread between the 2-year and 10-year yields, raising premature fears of recession. Municipal bond issuance hit month-high records with over $55B of new issuance in December in reaction to potential limitations on tax-exempt issues.

Currencies

The US dollar recorded its first yearly loss since 2012, pulled down by concerns over President Trump's ability to implement his pro-growth policy agenda and uncertainty in Fed rate hikes. The euro slid after results from the Catalonia election showed growing support for separatism and a push for independence from Spain, but ended the month with a 0.8% gain and a brisk 14.1% appreciation against the US dollar for the year. The yen declined for the month when the BoJ affirmed continuation of its ultra-accommodative monetary stimulus citing low inflation. Emerging market currencies collectively ended the year with double-digit returns led by strength in the South African rand and a few emerging European currencies.

Real Assets

The broad-based commodity index was up 2.9% as strong returns from industrial metals offset losses in natural gas and most grain prices. Natural gas prices plummeted on weak demand and ample supply, especially in the southern regions where temperatures have been warmer than usual. Oil prices surged to 2-year highs on reports of a pipeline explosion in Libya, curbing production in one of OPECs largest producing regions. The impact on oil prices helped push MLP prices up 4.7% in December, reducing the year-to-date loss.

Hedge Strategies

Most major hedge strategies finished out the year in positive territory. Equity hedge strategies added to impressive year-to-date gains boosted by positive returns from fundamental value and growth sectors. Following a year of double digit returns, distressed strategies ended this year up 3.2% against a backdrop of tightening credit markets and falling oil prices. Record low volatility, as measured by the VIX, dampened year-to-date returns for equity market neutral strategies which were up a modest 1.7% for the full year.

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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