GREYCOURT

Capital Markets Flash Report

For the Month Ending May 31, 2018

US Equity	May-18	YTD
S&P 500	2.4%	2.0%
Russell 1000	2.6%	2.2%
Russell 1000 Value	0.6%	-1.9%
Russell 1000 Growth	4.4%	6.2%
Russell 2000	6.1%	6.9%
Russell 2000 Value	5.8%	4.8%
Russell 2000 Growth	6.3%	8.8%
Non-US Equity		
MSCI All-Country World ex-US	-2.2%	-1.6%
MSCI EAFE	-2.1%	-1.2%
MSCI Europe	-3.1%	-2.1%
MSCI Japan	-1.0%	0.7%
MSCI EAFE Value	-4.2%	-3.0%
MSCI EAFE Growth	-0.1%	0.5%
MSCI Emerging Markets	-3.5%	-2.5%
MSCI BRIC	-1.8%	-0.1%
Fixed Income[1]		
U.S. Intermediate Treasuries	0.7%	-0.7%
U.S. Long Treasuries	2.1%	-3.2%
U.S. TIPS	0.4%	-0.4%
Corporate IG Bonds	0.3%	-3.6%
High-Yield Bonds	0.0%	-0.2%
Tax-Exempt Bonds	1.1%	-0.3%
Currencies		
US Dollar[2]	2.3%	2.0%
Euro	-3.2%	-2.6%
Yen	0.5%	3.6%
Emerging Markets[3]	-1.4%	-0.4%
Real Assets		
Commodities[4]	1.4%	3.6%
Energy	2.7%	9.7%
Industrial Metals	2.4%	-0.6%
Gold	-1.4%	-0.9%
Master Limited Partnerships[5]	5.0%	0.9%
Real Estate Investment Trusts[6]	3.6%	-2.8%
Hedge Strategies[7]		
Equity Hedge	0.2%	0.8%
Equity Market Neutral	0.1%	0.8%
Event Driven	0.4%	-4.0%
Relative Value Arbitrage	0.5%	1.7%
Distressed	0.4%	-4.6%
Macro	-0.5%	-2.0%

Overview

Mixed data on global growth, renewed fears about the future of the eurozone, and trade wars dominated markets in May. Long-standing expectations of growth and stability were shocked late in the month by political chaos in Italy over the anticipated appointment of a Eurosceptic economist as Economy Minister. Predictably, volatility spiked as investors sold stocks and sought safe havens in the US dollar and Japanese yen. After the issue was deftly resolved, the VIX fell and stock markets and Italian bonds rallied. Investors should not be complacent.

US Equity

Despite late-month volatility, US stocks ended the month up strongly with the majority of large cap return coming from information technology companies. US fiscal policy is creating a significant, albeit temporary, surge in business investment and growth that is driving large growth stocks to outperform large value stocks. Small cap stocks outpaced large cap stocks by almost four hundred basis points in May, based on a larger proportion of domestic sales and a strengthening US dollar that reduces the attractiveness of US exports.

Non-US Equity

Optimism regarding continued economic recovery in Europe was lessened somewhat by softer economic data and the drama of dysfunctional Italian political economy. Sentiment in Japan was bolstered by wage growth and lower unemployment, even as the manufacturing sector slowed in May. As a result, non-US developed stocks fell on a local currency basis. Emerging market stocks fell more as investors sought safe havens responding to political turmoil in Italy and Turkey. The strong US dollar exacerbated local currency losses.

Fixed Income

Fixed income markets posted positive absolute returns, led by long-duration Treasuries which rallied alongside core-European bonds in response to the political crisis in Italy. The 10-Year Treasury yield ranged from a high of 3.2% at mid-month, when global markets discounted a stronger US economy, to 2.8% during the month-end flight to quality episode. Tax-exempt municipals had a great month supported by steady demand and reduced issuance.

Currencies

Not surprisingly, trade war fears and political crisis threatening the viability of the eurozone, materially impacted currency exchange rates. The US dollar surged against most major peers, benefitting from reports earlier in the month that a US-China trade war had been temporarily averted and later from a collapsing Euro. The Yen gained as a second flight to quality currency and on improving economic sentiment. The Euro sunk to its lowest level in nearly a year and emerging market currencies fell by almost 1.4%.

Real Assets

Growth-spurred demand for industrial metals and OPEC's decision to maintain production cuts through 2018 powered commodity prices and returns. The divergence in WTI/Brent prices reached multi-year highs as WTI faced pressure from increased US oil production and Brent traded higher on European political risks. Home prices climbed in 91% of US metropolitan areas during the first quarter led by Seattle (+13%), Las Vegas (+12.4%), and San Francisco (11.3%) as eager home buyers faced tight supply conditions.

Hedge Strategies

Performance across hedge strategies was broadly positive, advancing alongside US stock and bond benchmarks. Relative Value Arbitrage strategies led the way on gains from global credit, convertible, and yield strategies. These gains offset losses from energy infrastructure managers. Mid-month exposures to energy, communications, and consumer sectors generated positive results for distressed strategies. Global macro suffered as late month volatility from Italy hurt spread trades in sovereign bonds.

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