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Capital Markets Flash Report

For the Month Ending March 31, 2017

US Equity	Mar-17	YTD
S&P 500	0.1%	6.1%
Russell 1000	0.1%	6.0%
Russell 1000 Value	-1.0%	3.3%
Russell 1000 Growth	1.2%	8.9%
Russell 2000	0.1%	2.5%
Russell 2000 Value	-0.8%	-0.1%
Russell 2000 Growth	1.2%	5.3%
Non-US Equity		
MSCI All-Country World ex-US	2.6%	8.0%
MSCI EAFE	2.9%	7.4%
MSCI Europe	4.1%	7.6%
MSCI Japan	-0.2%	4.6%
MSCI EAFE Value	2.9%	6.2%
MSCI EAFE Growth	2.8%	8.6%
MSCI Emerging Markets	2.5%	11.5%
MSCI BRIC	1.7%	11.6%
Fixed Income[1]		
U.S. Intermediate Treasuries	0.1%	0.5%
U.S. Long Treasuries	-0.6%	1.4%
U.S. TIPS	-0.1%	1.3%
Corporate IG Bonds	-0.4%	0.8%
High-Yield Bonds	-0.2%	2.7%
Tax-Exempt Bonds	0.2%	1.6%
Currencies		
US Dollar[2]	-0.8%	-1.8%
Euro	0.7%	1.3%
Yen	1.2%	5.0%
Emerging Markets[3]	0.9%	4.8%
Real Assets		
Commodities[4]	-2.7%	-2.5%
Energy	-1.5%	-11.4%
Industrial Metals	-2.0%	7.6%
Gold	-0.4%	8.2%
Real Estate Investment Trusts[5]	-1.6%	2.5%
Hedge Strategies[6]		
Equity Hedge	0.6%	2.7%
Equity Market Neutral	1.1%	1.9%
Event Driven	0.0%	2.6%
Relative Value Arbitrage	-0.3%	1.0%
Distressed	-1.4%	1.1%
Macro	-0.6%	-0.4%

Overview

Rediscounting of fiscal reform outcomes was the dominant investment theme in March as Republicans failed to bring a healthcare reform bill to the House floor. In response, investors reset growth and inflation expectations, anticipating similar difficulties in passing tax reforms and other pro-growth legislation. Thoughtful investors are weighing these fiscal challenges alongside substantial global liquidity driven by easy monetary policies, elevated valuations for stocks and bonds, and the potential for geopolitical instability.

US Equity

Concern regarding the Trump administration's ability to implement tax, regulatory, and corporate-friendly policies led to a substantial shift in sector leadership. Investors focused on companies expected to benefit from economic growth (large tech and internet) rather than changing fiscal and regulatory policies (financials and industrials). Given this backdrop, value stocks, after leading most of 2016, reversed course while growth stocks advanced. Smaller capitalization stocks, another key beneficiary of the "Trump trade," finished flat given their higher effective tax rates and growing concern over the likelihood of tax relief.

Non-US Equity

Non-US equities benefitted from a weaker US dollar, improving fundamentals for Europe, and relatively attractive valuations in non-US developed market equity markets. European stocks led developed market gains while emerging market stocks continued their blistering 2017 rally, benefitting from higher profit forecasts, expectations that developing nations can withstand higher US interest rates, and reduced fear of anti-growth trade policies. Year-to-date EM returns are nearly double those of US large caps and triple that of global bonds.

Fixed Income

Bond markets also responded to fiscal reform challenges in the US. High yield risk spreads widened in response to economic, interest rate, and commodity price uncertainties as well as massive issuance. Confidence in the reflation trade stalled as 10-year Treasury rates topped out at 2.62% prior to the healthcare reform flop and finished the month at 2.40%. Municipal bond volume dropped substantially after a strong start to the year.

Currencies

Doubts over US policy reform and the possibility of more than three interest rate hikes this year constituted a one-two punch for the US dollar, declining 0.8% this month. Emerging markets currencies benefitted, enjoying their best quarter in five years. Within EM currencies, the Mexican peso led the way with a gain of 10.7%. Based on firming oil prices, the Russian ruble nearly matched the peso's 2017 performance, up 9.4% against the US dollar.

Real Assets

Commodity markets fell even as higher demand and lower supply supported metals and natural gas prices. Below-average temperatures in the Northeast, combined with record inventory declines, boosted natural gas prices by 11.2%, following a dismal start to the year. In stark contrast to oil and agriculture commodities, industrial metals have advanced nearly 8% for the year, as shortages in copper and increased demand for aluminum, zinc, and lead have pushed year-to-date returns to 14.5%, 7.3%, and 16.4% respectively.

Hedge Strategies

Performance across hedge strategies was inconsistent in March as distressed debt strategies led declines, followed by macro strategies. Equity hedge and equity market neutral strategies posted gains, taking advantage of dispersion and sector rebalancing. Looking across strategies, net leverage approached historical averages prior to the FOMC meeting; interestingly, for the first time since November's election, short positions have increased across equity L/S, multi-strat, and macro funds.

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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