GREYCOURT

Capital Markets Flash Report

For the Month Ending January 31, 2018

US Equity	Jan-18	YTD
S&P 500	5.7%	5.7%
Russell 1000	5.5%	5.5%
Russell 1000 Value	3.9%	3.9%
Russell 1000 Growth	7.1%	7.1%
Russell 2000	2.6%	2.6%
Russell 2000 Value	1.2%	1.2%
Russell 2000 Growth	3.9%	3.9%
Non-US Equity		
MSCI All-Country World ex-US	5.6%	5.6%
MSCI EAFE	5.0%	5.0%
MSCI Europe	5.4%	5.4%
MSCI Japan	4.6%	4.6%
MSCI EAFE Value	5.4%	5.4%
MSCI EAFE Growth	4.6%	4.6%
MSCI Emerging Markets	8.3%	8.3%
MSCI BRIC	11.5%	11.5%
Fixed Income[1]		
U.S. Intermediate Treasuries	-1.0%	-1.0%
U.S. Long Treasuries	-3.2%	-3.2%
U.S. TIPS	-0.9%	-0.9%
Corporate IG Bonds	-1.1%	-1.1%
High-Yield Bonds	0.6%	0.6%
Tax-Exempt Bonds	-1.2%	-1.2%
Currencies		
US Dollar[2]	-3.2%	-3.2%
Euro	3.4%	3.4%
Yen	3.2%	3.2%
Emerging Markets[3]	2.9%	2.9%
Real Assets		
Commodities[4]	2.0%	2.0%
Energy	4.5%	4.5%
Industrial Metals	0.2%	0.2%
Gold	2.3%	2.3%
Master Limited Partnerships[5]	5.8%	5.8%
Real Estate Investment Trusts[6]	-2.9%	-2.9%
Hedge Strategies[7]		
Equity Hedge	3.5%	3.5%
Equity Market Neutral	1.2%	1.2%
Event Driven	1.9%	1.9%
Relative Value Arbitrage	1.1%	1.1%
Distressed	1.5%	1.5%
Macro	3.4%	3.4%

Overview

US and emerging markets stocks surged in January on strong growth and corporate earnings. Developed stocks also performed well, assisted by the US dollar's decline. Importantly, robust consumer spending and business investment helped the markets take a brief US government shutdown in stride. Fiscal stimulus, improvements in trade from the weaker dollar, and stabilizing energy markets will accelerate differential US growth. With the US economy at or above potential output, the resulting pressure on the Fed to raise rates will increase. The risk of central bank mis-steps remains high.

US Equity

Investors, optimistic over tax cuts and global growth, showed little caution as US companies provided the strongest round of earnings upgrades since 2012 and large cap stocks had their strongest January since 1997. A subplot in the relentless stock rally continues to be the relative underperformance of stocks that pay significant dividends—telecoms, utilities, and property companies (i.e., sectors that are the most sensitive to interest rate increases). Consistent with this tendency, the best performing factors were momentum, growth, and high beta.

Non-US Equity

On a local currency basis, developed non-US stocks trailed US stocks. Adjusting for the weaker dollar, however, performance was comparable. After years of underperformance, European stocks are benefitting from unprecedented ECB stimulus, corporate restructuring, and better-than-expected economic growth and business confidence that are near 17-year highs. Emerging markets' stocks significantly outperformed developed non-US stocks given better economic and profit growth and earnings expectations at multi-year highs.

Fixed Income

With the US economy near capacity, concerns about inflation and the volatility associated with the Fed's increasing rates faster than expected, all fixed income, excepting high yield, had negative returns in January. Markets have priced in three Fed rate increases in 2018 and an end to ECB's bond buying program later this year. The BoJ could also provide headwinds to bond prices by scaling back its quantitative easing. These factors have predictably pushed the 10-year Treasury yield to 2.72%, a 32-basis point increase from year end. High yield continues to benefit from growth and improving energy prices.

Currencies

Despite solid growth and normalization by the Fed, the US dollar's fall against most major currencies continued into January. Apparent conflict between President Trump, Treasury Secretary Mnuchin, and comments by ECB President Draghi, also fueled volatility. Shifting investor expectations were influenced by comments from the ECB and BoJ and an improving political and economic outlook for Europe. EM market currencies also enjoyed material gains as investors continue to seek value and growth in emerging markets stocks and bonds.

Real Assets

A weaker dollar, US tax cuts, and global growth boosted commodity prices in January. WTI crude led the advance (up 7.1%), even as soaring US crude production partially offset OPEC's efforts to tighten supply. Industrial metal returns were generally muted on weaker Chinese property market data and delays in the expected "electric vehicle revolution." Hedging against unexpected inflation, with the US dollar at multi-year lows, helped push gold prices to levels not seen since 2016, although subsequent interest rate concerns reversed some of the gains.

Hedge Strategies

Hedge strategies were positive for the month, led by global macro and equity hedge funds. Global macro strategies that have struggled over the past several years with bond and currency markets effectively managed by central bank QE, led gains amid an uptick in currency market volatility and the anticipation of monetary tightening later this year by the ECB. A solid upward trend in equity markets, buoyant global economic conditions, and a positive earnings outlook were tailwinds for equity hedge strategies which rose 3.5% in January.

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

Greycourt & Co., Inc., 2100 Wharton Street, Suite 600, Pittsburgh, Pennsylvania • 707 SW Washington Street, Suite 900, Portland, Oregon
808 Travis Street, Suite 914, Houston, Texas • 222 S. 9th Street, Suite 1600, Minneapolis, Minnesota