GREYCOURT

Capital Markets Flash Report

For the Month Ending February 28, 2018

US Equity	Feb-18	YTD
S&P 500	-3.7%	1.8%
Russell 1000	-3.7%	1.6%
Russell 1000 Value	-4.8%	-1.1%
Russell 1000 Growth	-2.6%	4.3%
Russell 2000	-3.9%	-1.4%
Russell 2000 Value	-5.0%	-3.8%
Russell 2000 Growth	-2.9%	0.9%
Non-US Equity		
MSCI All-Country World ex-US	-4.7%	0.6%
MSCI EAFE	-4.5%	0.3%
MSCI Europe	-5.9%	-0.8%
MSCI Japan	-1.5%	3.0%
MSCI EAFE Value	-4.7%	0.4%
MSCI EAFE Growth	-4.3%	0.2%
MSCI Emerging Markets	-4.6%	3.4%
MSCI BRIC	-5.3%	5.6%
Fixed Income[1]		
U.S. Intermediate Treasuries	-0.3%	-1.3%
U.S. Long Treasuries	-3.0%	-6.1%
U.S. TIPS	-1.0%	-1.8%
Corporate IG Bonds	-1.7%	-2.8%
High-Yield Bonds	-0.8%	-0.3%
Tax-Exempt Bonds	-0.3%	-1.5%
Currencies		
US Dollar[2]	1.7%	-1.6%
Euro	-1.8%	1.6%
Yen	2.3%	5.6%
Emerging Markets[3]	-0.7%	2.2%
Real Assets		
Commodities[4]	-1.7%	0.2%
Energy	-7.2%	-3.0%
Industrial Metals	-2.2%	-2.0%
Gold	-1.8%	0.5%
Master Limited Partnerships[5]	-9.7%	-4.5%
Real Estate Investment Trusts[6]	-7.3%	-10.0%
Hedge Strategies[7]		
Equity Hedge	-1.0%	2.4%
Equity Market Neutral	-0.4%	0.8%
Event Driven	-3.9%	-2.2%
Relative Value Arbitrage	0.3%	1.4%
Distressed	-0.6%	1.0%
Macro	-4.2%	-0.6%

Overview

February provided a preview of the volatility markets will endure as investors disagree about the timing and magnitude of the ultimate collision of strong growth and profits with central bankers who will raise interest rates to slow things down. This predictable experience of a capitalist business cycle is necessary for healthy and functioning capital markets. In the next economic downturn, however, central bankers will be hampered by low interest rates and QE-stretched balance sheets, while muted inflation, resulting from globalization and automation, will heighten deflation risks.

US Equity

Major US indices plummeted into correction territory as investors repriced inflation expectations based on strong employment data and a more aggressive Fed stance that is signaling accelerated interest rate hikes. With strengthening fundamentals, such as improved corporate earnings and positive economic growth, equity markets staged a significant rebound mid-month, recouping more than half their intra-month losses. Technology stocks led the rebound with technology the only sector to finish the month with a positive return. Despite falling stock prices, higher discount rates that lower stock values remain a concern.

Non-US Equity

The rapid pullback in US equity markets sparked a sell-off in global equities. The Nikkei and some European indices moved to correction levels alongside US markets. European equities recouped some of their losses but ended the month down despite strong economic growth, falling unemployment, and ongoing stimulus efforts from the ECB. A stronger yen placed further pressure on Japanese stocks, falling 3.7% in local currency terms. On a local currency basis, emerging market stocks held up well when compared to prior historical events in what was an episode of significant US volatility. Policy adjustments, growth, profits, and relative valuations continue to support emerging market stocks.

Fixed Income

A strong US economy, investor anticipation for higher rates, and concerns about rapid inflation pushed most bond prices lower for the month. The new tax law is expected, by some, to increase the government's deficit, thereby setting the stage for crowding out as the Treasury funds the government while the Fed intends to shrink its balance sheet by $400 billion this year. We believe there will be coordination between the Treasury and Fed to mitigate impacts on capital markets. Nonetheless, the 10-year Treasury yield climbed to 4-year highs and ended the month at 2.87%, 41 basis points higher than the start of the year.

Currencies

The US dollar climbed higher, accelerated by strong consumer confidence and a somewhat hawkish tone by the new Fed Chair Jerome Powell who hinted at four possible rates this year, as opposed to the originally anticipated, three rate-hikes. The euro declined against the US dollar on fundamental inflation data, technical factors, and signaling from the ECB. The yen strengthened against the US dollar, supported by a robust Japanese economy making the 'safe-haven' asset one of the strongest major currencies this year.

Real Assets

Commodities declined in aggregate led by losses in energy and precious metals. Oil prices plunged on reports revealing significant gains in domestic production and inventories while natural gas prices dropped because of warmer-than-usual temperatures in the northeast. Precious metals, notably gold and silver, responded negatively to rising government bond yields and a stronger US dollar. A bright spot was nickel, rallying on an increase in Chinese imports and tighter supplies.

Hedge Strategies

After posting the strongest start to the new year since 2013, most major hedge strategies declined alongside global markets in February, albeit not as drastically. Macro strategies, most notably ones that employ systematic trend-following methods, posted sharp declines, because the sharp reversal and volatility did not provide time in the month to reestablish new trends. Event driven strategies were pulled lower primarily by special situation funds with greater sensitivity to equity markets.

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