

US Equity	Mar-18	YTD
S&P 500	-2.5%	-0.8%
Russell 1000	-2.3%	-0.7%
Russell 1000 Value	-1.8%	-2.8%
Russell 1000 Growth	-2.7%	1.4%
Russell 2000	1.3%	-0.1%
Russell 2000 Value	1.2%	-2.6%
Russell 2000 Growth	1.3%	2.3%
Non-US Equity		
MSCI All-Country World ex-US	-1.7%	-1.1%
MSCI EAFE	-1.7%	-1.4%
MSCI Europe	-1.1%	-1.9%
MSCI Japan	-2.0%	1.0%
MSCI EAFE Value	-2.3%	-1.9%
MSCI EAFE Growth	-1.1%	-1.0%
MSCI Emerging Markets	-1.8%	1.5%
MSCI BRIC	-3.2%	2.2%
Fixed Income <sup>1</sup>		
U.S. Intermediate Treasuries	0.5%	-0.7%
U.S. Long Treasuries	3.0%	-3.3%
U.S. TIPS	1.1%	-0.8%
Corporate IG Bonds	0.0%	-2.8%
High-Yield Bonds	-0.6%	-0.9%
Tax-Exempt Bonds	0.4%	-1.1%
Currencies		
US Dollar <sup>2</sup>	-0.7%	-2.3%
Euro	1.1%	2.7%
Yen	0.4%	6.0%
Emerging Markets <sup>3</sup>	0.5%	2.7%
Real Assets		
Commodities <sup>4</sup>	-0.6%	-0.4%
Energy	4.9%	1.8%
Industrial Metals	-4.4%	-6.2%
Gold	0.4%	1.0%
Master Limited Partnerships <sup>5</sup>	-6.9%	-11.1%
Real Estate Investment Trusts <sup>6</sup>	3.7%	-6.7%
Hedge Strategies <sup>7</sup>		
Equity Hedge	-1.3%	0.6%
Equity Market Neutral	-0.6%	0.3%
Event Driven	-2.4%	-5.0%
Relative Value Arbitrage	-0.4%	0.9%
Distressed	-5.3%	-5.0%
Macro	-0.3%	-1.5%

## Overview

Markets are experiencing a form of March Madness trying to reconcile accelerating late-stage growth, concern the Fed might precipitate a recession without adequate resources to jump start the economy, and the practical import of trade and regulatory oversight tweets on global growth and tech companies. Reaction has been predictably volatile and likely excessive given the strength of growth, profits, and wages. Nonetheless, bear case deflationary fears, spawned by growing debt and deficits, are not entirely fanciful and will ultimately constrain returns through expectations of rising real rates and requirements for larger risk premiums.

## US Equity

Headlines indicated that tech worries and China trade war fears dragged stocks down in March. Although true, trade tweets seem to be a ploy and largely political. Trade agreements, if reached, would be positive news. The broader correction was driven by the impact of rising rates on valuation and concern of overly aggressive rate hikes by the Fed. As expected, cyclical and commodity companies outperformed other stocks, especially interest-rate sensitive stocks that were aggressively repriced. Domestically focused small cap companies benefitted most from trade threats, outpacing large cap stocks by almost four percentage points for the month.

## Non-US Equity

Data indicating slowing growth momentum in Europe and US-China trade frictions perturbed investors in non-US markets. After hitting a 17-year high in December, confidence in Europe declined for the third consecutive month on expectations that companies will pare back investments because of Brexit, US trade policies, and a stronger euro. Emerging market equities, still up for the year, declined during the month because of trade war talk, the rout in tech stocks, and prospects of higher borrowing costs. As an example, Turkey fell 7.4% owing to its heavy reliance on external financing to plug its current account gap.

## Fixed Income

The Fed offered no surprises in its March meeting, increasing the fed funds' target rate by 25 basis points and its forward guidance given strong economic growth data. With credit extension growing at a healthy-but-reasonable rate, the Fed has flexibility to manage rates and the timing of its actions to support the ongoing expansion. As a result, investors sought out Treasury and tax-exempt issues, especially long-dated Treasuries in response to equity market volatility. With increasing borrowing costs and declining foreign demand, US corporate and high-yield bonds—hit by investor outflows in ten of the last eleven weeks—struggled.

## Currencies

The US dollar slowed its decline during the final days of the month, supported by higher GDP results and optimism over surprise talks between North Korea and China. Despite paring early month gains, the euro continued to advance against the dollar, supported by increased trading demand from Asia and Latin America in response to fears of rising US protectionist trade policies. Emerging market currencies also enjoyed gains as investors sought out attractive relative valuations in emerging market stocks and bonds.

## Real Assets

Commodities finished lower as significant returns to energy were offset by losses across industrial metals. West Texas Intermediate and Brent Crude oil prices advanced 5.7% and 7.1% respectively, amid signs that OPEC might extend production cuts into 2019. Trade tensions weighed heavily on industrial metals on fears of significantly reduced demand by China's steel making sector. Nickel was especially hurt, falling 4% in value for the month. Master Limited Partnerships (MLPs) sharply overreacted to changes in income tax allowances and weakening sentiment surrounding the midstream space.

## Hedge Strategies

Returns to hedge strategies were negative in March despite continuing, but very difficult to trade, volatility and interest rate pressures. Lower-turnover equity long/short strategies benefitted from consistent positioning to growth, momentum, and size factors. Size is a pro-cyclical factor measuring the tendency of smaller company stocks to outperform larger ones during periods of economic expansion. It was the largest contributor to factor returns in March. Distressed and event driven strategies posted the largest declines for the month given exposures to energy, energy infrastructure, and industrial names, as well as mixed results across global equity and currency markets.

Data Source: Bloomberg. MSCI returns are gross USD. Currency returns are Simple Price Appreciation (SPA) USD basis. <sup>1</sup> Fixed Income reported on Barclays Indices. <sup>2</sup> US Dollar Index

<sup>3</sup> MSCI Emerging Markets Currency Index <sup>4</sup> Bloomberg Commodity Indices <sup>5</sup> Alerian MLP Index <sup>6</sup> FTSE NAREIT Equity REIT Index <sup>7</sup> Hedge strategy returns are SPA reported on HFRX Indices with one day lag. For complete Index Descriptions, see <http://www.greycourt.com/indices.html>