GREYCOURT

Capital Markets Flash Report

For the Month Ending June 30, 2018

US Equity	Jun-18	YTD
S&P 500	0.6%	2.6%
Russell 1000	0.6%	2.9%
Russell 1000 Value	0.2%	-1.7%
Russell 1000 Growth	1.0%	7.3%
Russell 2000	0.7%	7.7%
Russell 2000 Value	0.6%	5.5%
Russell 2000 Growth	0.8%	9.7%
Non-US Equity		
MSCI All-Country World ex-US	-1.8%	-3.4%
MSCI EAFE	-1.2%	-2.4%
MSCI Europe	-0.6%	-2.7%
MSCI Japan	-2.5%	-1.8%
MSCI EAFE Value	-1.2%	-4.2%
MSCI EAFE Growth	-1.2%	-0.6%
MSCI Emerging Markets	-4.1%	-6.5%
MSCI BRIC	-4.5%	-4.6%
Fixed Income[1]		
U.S. Intermediate Treasuries	0.0%	-0.7%
U.S. Long Treasuries	0.2%	-3.0%
U.S. TIPS	0.4%	0.0%
Corporate IG Bonds	-0.8%	-4.3%
High-Yield Bonds	0.4%	0.2%
Tax-Exempt Bonds	0.1%	-0.2%
Currencies		
US Dollar[2]	0.5%	2.5%
Euro	-0.1%	-2.7%
Yen	-1.7%	1.8%
Emerging Markets[3]	-2.6%	-2.9%
Real Assets		
Commodities[4]	-3.5%	0.0%
Energy	2.7%	12.7%
Industrial Metals	-4.8%	-5.3%
Gold	-3.7%	-4.6%
Master Limited Partnerships[5]	-1.5%	-0.6%
Real Estate Investment Trusts[6]	4.2%	1.3%
Hedge Strategies[7]		
Equity Hedge	-1.1%	-0.2%
Equity Market Neutral	-0.7%	0.1%
Event Driven	-0.8%	-4.8%
Relative Value Arbitrage	0.2%	2.0%
Distressed	-1.7%	-6.2%
Macro	0.5%	-1.5%

Overview

Strong growth and expectations of tightening were met by fears of trade wars and recession throughout the month. The predictable turbulence resulted in volatile asset prices and currency swings. The Fed hiked rates again, and the ECB announced it would stop QE purchases by year end, signaling the end of an era of unconventional monetary policy. The synchronous growth story also wound down as the BoJ continued massive stimulus, and the Chinese economy slowed. With trade retaliation between the US and China heating up, China's currency and stock market plummeted to fresh lows.

US Equity

The tension between pro-growth and protectionist policies disturbed investor sentiment. While tax cuts and tighter labor markets energized consumption and business investment, the threat of trade wars was a headwind, especially to the stocks of companies with significant overseas sales. Year-to-date, smaller companies with mostly domestic sales, supported by strong earnings and small business optimism at forty-year highs, outperformed larger companies by almost 500 basis points. For the month, however, all stocks struggled to post positive returns. As Dave Rosenberg quipped, "in these tense trade times, flat is the new up."

Non-US Equity

Trade tensions reverberated across non-US markets as well, inflicting the greatest damage on the emerging markets. Exposure to trade, measured as a percentage of GDP, accounted for much of the differential negative stock performance in June. The issues for emerging market stocks were compounded by escalating tariff fears, US interest rate hikes, a stronger US dollar, and higher oil prices. China's stock market entered bear-market territory late in the month as investors grow more concerned about the world's second largest economy. Broad investor outflows are indiscriminately creating significant mismatches in relative valuations.

Fixed Income

Central bank policy normalization and stronger growth pushed yields higher across developed and emerging markets. Significant US dollar debt obligations and rising rates pushed emerging market debt to very high levels and spreads. In the US, the spread between the 10 and 2-year Treasury yield ended at its narrowest levels since August 2007. Pressured by a hawkish Fed, trade tensions, and a flood of high-grade issuance intended to finance recent mega mergers, investment-grade corporate bonds declined and continue to underperform high yield debt despite increasing volatility and unreasonably tight spreads for junk bonds.

Currencies

The US dollar rose against most major currencies, supported by strong growth and a hawkish Fed. The euro declined in response to the ECB's plan to stop QE with no indication of increasing policy rates for another year. The EU did reach an agreement on migration at month end that was supportive. The yen weakened as the BoJ chose to maintain its ultra-loose monetary policy given disappointing price growth. Emerging market currencies were hit by rising US interest rates, a stronger dollar, trade tensions, and the surge in oil prices.

Real Assets

Except for oil, commodity sectors fell because of trade war fears, a stronger US dollar, and China weakness. Declining inventories and disruptions in US and Canadian supply pushed oil prices to post-2014 highs. MLPs, however, failed to capitalize on the surge in oil prices over concerns regarding C-Corp conversions. REITs surged as the Supreme Court provided a victory to brick-and-mortar businesses by ruling that internet retailers can be required to collect sales taxes in states where they have no physical presence.

Hedge Strategies

Returns to directional and less directional hedge fund strategies were generally flat to negative. Equity hedge strategies focused on fundamental growth and emerging markets turned lower, pressured by escalated trade tensions. Distressed strategies also declined, pulled lower by strategies with exposure to industrial and financial sectors. According to Hedge Fund Research, hedge fund launches have outpaced liquidations year-to-date and average management fees in the hedge fund industry have declined to record lows.

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

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