GREYCOURT

Capital Markets Flash Report

For the Month Ending July 31, 2018

US Equity	Jul-18	YTD
S&P 500	3.7%	6.5%
Russell 1000	3.5%	6.4%
Russell 1000 Value	4.0%	2.2%
Russell 1000 Growth	2.9%	10.4%
Russell 2000	1.7%	9.5%
Russell 2000 Value	1.8%	7.3%
Russell 2000 Growth	1.7%	11.6%
Non-US Equity		
MSCI All-Country World ex-US	2.4%	-1.1%
MSCI EAFE	2.5%	0.0%
MSCI Europe	3.3%	0.5%
MSCI Japan	0.4%	-1.5%
MSCI EAFE Value	2.9%	-1.4%
MSCI EAFE Growth	2.1%	1.4%
MSCI Emerging Markets	2.3%	-4.4%
MSCI BRIC	1.2%	-3.4%
Fixed Income[1]		
U.S. Intermediate Treasuries	-0.2%	-0.9%
U.S. Long Treasuries	-1.5%	-4.4%
U.S. TIPS	-0.5%	-0.5%
Corporate IG Bonds	0.6%	-3.7%
High-Yield Bonds	1.1%	1.3%
Tax-Exempt Bonds	0.2%	0.0%
Currencies		
US Dollar[2]	0.1%	2.6%
Euro	0.1%	-2.6%
Yen	-1.1%	0.7%
Emerging Markets[3]	-0.2%	-3.1%
Real Assets		
Commodities[4]	-2.1%	-2.1%
Energy	-4.4%	7.8%
Industrial Metals	-4.7%	-9.8%
Gold	-2.4%	-6.8%
Master Limited Partnerships[5]	6.6%	5.9%
Real Estate Investment Trusts[6]	0.6%	1.9%
Hedge Strategies[7]		
Equity Hedge	0.6%	0.9%
Equity Market Neutral	0.1%	0.3%
Event Driven	-0.7%	-5.2%
Relative Value Arbitrage	0.1%	2.3%
Distressed	0.2%	-6.0%
Macro	-0.6%	-2.4%

Overview

Stock returns surged in July, bolstered by strong economic growth, continuing corporate profits, positive earnings surprises, and reduced transatlantic trade tensions. US economic growth accelerated at its fastest pace in nearly four years (+4.1%) as the effects of tax cuts and deregulation supported sharp rises in consumer and business spending. Investors responded favorably to unexpected discussions between the US and Europe aimed at eliminating tariffs; nonetheless, tensions between Washington and Beijing increased as China refused to approve the merger of Qualcomm and NXP Semiconductors.

US Equity

While small cap stocks continue to outperform large cap stocks year-to-date, large caps posted an outstanding return for July. Investors appreciated progress on tariff talks with Europe, strong corporate profits, and almost 75% of S&P 500 companies reporting actual sales above estimates compared to the five-year average. Recent outperformance for domestically focused small caps paused, trailing larger, export-focused companies. Value stocks outpaced growth stocks given the differential effects of the administration's fiscal policies and underperformance from tech companies such as Facebook. Equity volatility was also muted.

Non-US Equity

Cautious optimism held across developed and emerging markets this month as non-US stocks enjoyed their first positive month since April. European stocks, particularly automakers, celebrated news of an agreement to suspend new tariffs between the US and the EU. This news offset weaker growth data and waning business confidence. Emerging markets investors were encouraged by Chinese stimulus measures designed to boost domestic demand and China's adherence to its flexible exchange rate policy in partial response to trade tensions with the US. For similar reasons, frontier markets also had a strong July.

Fixed Income

The US yield curve flattened as safe-haven, long-duration Treasuries fell more than intermediate Treasuries on accelerating late-cycle US growth. The benchmark 10-year Treasury yield rose by eleven basis points to 2.96%. Faster growth, limited issuance, and reduced concerns about default risk helped push high yield bonds higher for the month and year-to-date. Tax-exempt bonds saw increased demand with inflows exceeding $2 billion in July. Recovering from losses in January, tax-exempt bonds now lead long-dated Treasuries and investment-grade corporate bonds by 440 and 370 basis points respectively year-to-date.

Currencies

While currency moves were muted in absolute terms, July saw the widest divergence in implied volatility between major-developed market currencies and emerging market currencies since 2011. Implied volatility in emerging market currencies surged to the highest level in a year, as the convergence of geopolitical tensions, looming trade war implications, and strengthening of the US dollar have soured sentiment for those seeking yield in developing markets.

Real Assets

With the notable exception of Master Limited Partnerships ("MLPs"), commodity returns turned broadly negative for the month. Energy and industrial metals led commodity losses as increased production from OPEC and Russia raised concern of a glut in world oil supply, while slower growth in China—the world's top metals consumer—weakened the outlook for external demand. MLPs, however, surged after the Federal Energy Regulatory Commission finalized a new policy relating to the tax code overhaul that had weighed heavily on energy companies earlier in the year.

Hedge Strategies

Hedge strategies were mixed for the month attempting to balance the positive impact of a stronger US economy against the negative effects of intensifying trade tariff volatility. Equity and market neutral strategies benefited from sector exposures to large-cap financials, communications, and technology. These positions offset declines from global healthcare. Interestingly, while the number of fund-of-fund strategies has dwindled in the US and Europe, they are opening at a record pace in Asia with more than 100 launches this year.

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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