GREYCOURT

Capital Market Flash Report

October 2018 Despite record profit growth in the US, global stock markets sold off in October. Investors recognized that rapid profit growth is seldom sustainable and began to discount the effects of tightening monetary policy that is exposing late-cycle cost pressures. The underperformance of cyclical sectors across markets also confirmed worries about slowing economic growth, especially in China and the US. These growth concerns, exacerbated by the strong US dollar, pushed nearly half of global stock markets to one-year lows.

US EQUITY

After a significant end-of-month rally, US stocks still fell sharply in October. Larger cap stocks declined less than smaller cap stocks, and value outperformed growth as volatility spiked. Caught between trade issues with China and regulatory scrutiny, tech stocks were hit hard. Interestingly, cyclical sectors significantly underperformed information technology while consumer staples and utilities had positive returns. As expected, stocks with high momentum and market beta exposures performed worst.

	Month (%)	YTD (%)
S&P 500	-6.8	3.0
Russell 1000	-7.1	2.7
Russell 1000 Value	-5.2	-1.5
Russell 1000 Growth	-8.9	6.6
Russell 2000	-10.9	-0.6
Russell 2000 Value	-9.0	-2.5
Russell 2000 Growth	-12.7	1.1

NON-US EQUITY

Non-US equities declined comparably on a local currency basis. In developed economies, multi-year lows in German manufacturing data, combined with Italy's debt crisis, raised concerns over growth and the future of the EU. US dollar strength, a falling yuan, and negative returns in Chinese stocks contributed to significant losses across emerging markets, which have seen valuations fall to their lowest levels in almost two years. Brazil stood out with a positive return based on electing a market-oriented president.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	-8.1	-10.6
MSCI EAFE	-8.0	-8.9
MSCI Europe	-7.6	-9.4
MSCI Japan	-8.5	-6.7
MSCI Emerging Markets	-8.7	-15.4
MSCI BRIC Index	-6.5	-14.4

FIXED INCOME

Bonds and stocks fell in concert this month as bond investors responded to American wages increasing at the fastest rate in over a decade, and potentially higher inflation with corporate cost pass-throughs expected to consumers. Supply increases by the Treasury also weighed on bond prices. Long-dated US Treasuries led the decline, as high-yield bonds gave back much of their year-to-date positive returns. Short and intermediate municipals returned to fair value relative to US Treasuries, limiting losses.

	Month (%)	YTD (%)
U.S. Intermediate Treasuries	0.0	-0.8
U.S. Long Treasuries	-3.0	-8.7
U.S. TIPS	-1.4	-2.3
Corporate IG Bonds	-1.7	-5.6
High-Yield Bonds	-1.6	0.9
Tax-Exempt Bonds	-0.6	-1.0

CURRENCIES

The US dollar hit 16-month highs on strong consumption data and interest-rate differentials, while the euro declined because of disappointing eurozone growth and the announcement that German Chancellor Angela Merkel would not be seeking re-election. The yen maintained its safe-haven status in volatile markets, benefitting from fresh concerns regarding Brexit and pressure on EM currencies amid trade war concerns. The Chinese renminbi fell once again, muting the impact of US-imposed tariffs.

	Month (%)	YTD (%)
US Dollar	2.1	5.4
Euro	-2.5	-5.8
Yen	0.6	-0.2
Emerging Markets[1]	-1.1	-5.5

REAL ASSETS

With the notable exception of gold that appreciated as increased volatility rocked markets, commodities had a terrible month. Oil prices tumbled feeling the effects of the stronger US dollar and expectations for increased output from the US and OPEC participants. Aluminum and other base metals also declined on dampening global growth prospects and the threat of new tariffs. MLPs were hurt by the falling energy prices, and REITs continue to be hurt by rising interest rates and reduced housing market demand.

	Month (%)	YTD (%)
Commodities[2]	-2.2	-4.1
Energy	-5.5	11.2
Industrial Metals	-5.5	-16.7
Gold	1.8	-7.7
Master Limited Partnerships[3]	-8.0	-2.6
Real Estate Investment Trusts[4]	-3.0	-1.2

HEDGE STRATEGIES

The headline for October is the abysmal performance of long/short equity managers who had crowded into tech stocks hoping to ride the bull market growth wave. With tech and growth names falling throughout the month, managers scrambled and declined in value as a result. Neutral strategies performed best, effectively blunting the market downswing. Other strategies, including macro, were battered by rising interest rates, plummeting oil prices, and geopolitical turmoil across markets.

	Month (%)	YTD (%)
Equity Hedge	-5.1	-6.0
Equity Market Neutral	-1.0	-1.5
Event Driven	-4.9	-10.1
Distressed	-1.3	-6.8
Macro	-2.8	-4.0

Data Source: Bloomberg. MSCI returns are gross USD. Currency returns are Simple Price Appreciation (SPA) USD basis. Fixed Income reported on Bloomberg Barclays Indices. [1]MSCI Emerging Markets Currency Index. [2]Bloomberg Commodity Indices. [3]Alerian MLP Index. [4]FTSE NAREIT Equity REIT Index. Hedge Strategies reported on HFRX Indices SPA with one-day lag. For complete Index Descriptions, see http://www.greycourt.com/indices.html