GREYCOURT

Capital Market Flash Report

February 2019 Optimism across markets continued to increase through the month, reaching excessive levels as global growth slows and a variety of earnings factors such as forward earnings momentum and earnings revisions weaken. The persistence of gold pricing, and decreases in global bond yields, signal continuing difficult and volatile markets for risk assets. Clearly, the Fed's pause in tightening helps extend growth and profits in the US which, with China's capacity to stimulate, is supportive of markets and economies globally.

US EQUITY

US stocks continued their upward march in 2019, reassured by the Fed's commitment to extend the bull market by pausing on actions that would slow the economy. Industrials, financials, and cyclical energy stocks led the way, as technology stocks and companies with Chinese-growth exposure rallied on the prospect of substantial trade progress China. Small cap outperformed large cap, and growth outpaced value, as investors returned to stocks hit hardest by December's recession fears.

	Month (%)	YTD (%)
S&P 500	3.2	11.5
Russell 1000	3.4	12.0
Russell 1000 Value	3.2	11.2
Russell 1000 Growth	3.6	12.9
Russell 2000	5.2	17.0
Russell 2000 Value	3.9	15.2
Russell 2000 Growth	6.5	18.8

NON-US EQUITY

Cheap stocks and a dovish ECB pushed European stocks to their best start since 2015 amid uncertainty regarding Brexit, Italy, and Spanish elections. Net fund flows have been negative over the past year as challenges in German auto and petrochemical industries helped tip Europe's manufacturing indicators to contractionary levels. Strong local currency returns by EM stocks were pared back by a modest increase in the US dollar, while China posted stellar performance on expectations of trade progress and central bank stimulus.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	2.0	9.7
MSCI EAFE	2.6	9.3
MSCI Europe	3.4	10.2
MSCI Japan	0.0	6.1
MSCI Emerging Markets	0.2	9.0
MSCI BRIC Index	1.2	11.2

FIXED INCOME

Bond investors did not respond with equivalent enthusiasm as equity investors to Chairman Powell's testimony and US-China trade optimism. The Global Economic Surprise Index remained negative for its longest duration since 2008, and corporate credits and TIPs were unchanged. High yield bonds did respond favorably to the Fed's pause as Treasuries priced in concerns about substantial and growing deficits. Municipal bonds rose on strong demand and light issuance, with year-to-date inflows at their highest level since 2012.

	Month (%)	YTD (%)
U.S. Intermediate Treasuries	-0.1	0.4
U.S. Long Treasuries	-1.2	-0.6
U.S. TIPS	0.0	1.3
Corporate IG Bonds	0.0	2.1
High-Yield Bonds	1.7	6.3
Tax-Exempt Bonds	0.5	1.3

CURRENCIES

The US dollar appreciated against the euro and yen as PMI data indicated slowing growth in Europe and Japan. The widening gap between government bond yields in the US and Europe also pressured the euro, reflecting pessimism about the eurozone's growth prospects. Notwithstanding the positive benefits of the Fed's pause on emerging markets capital flows and continuing growth, indigenous emerging markets investors sought to diversify their regional asset and currency risk exposures.

	Month (%)	YTD (%)
US Dollar	0.6	0.0
Euro	-0.7	-0.8
Yen	-2.3	-1.6
Emerging Markets[1]	-0.5	2.1

REAL ASSETS

With copper leading the charge, base metals rose significantly on falling inventories and increased trade optimism. Lower OPEC supply, and receding fears of a glut, spurred oil to its best start since 1984. Rising energy prices boosted midstream MLPs, offsetting weaker 4Q earnings, while a polar vortex helped natural gas prices increase, even with strong shale production. Gold traded off and dividend-paying REITs responded positively to the signal and promise of the Fed's rate pause and likely slowing QT.

	Month (%)	YTD (%)
Commodities[2]	1.0	6.5
Energy	5.4	15.2
Industrial Metals	3.5	11.8
Gold	-0.5	2.6
Master Limited Partnerships[3]	0.3	12.9
Real Estate Investment Trusts[4]	0.7	12.6

HEDGE STRATEGIES

Directional equity hedge managers consistently increased gross portfolio exposures throughout the month, especially outside of North America. Net exposures, however, remained below long-term averages with increasing exposure to technology and growth that resulted in good monthly performance. Equity market neutral strategies declined on poor stock selection and little market exposure in a bullish month. Macro strategies navigated rates, currency, and commodity movements to post modest gains.

	Month (%)	YTD (%)
Equity Hedge	1.3	5.3
Equity Market Neutral	-1.3	-1.1
Event Driven	0.0	2.5
Distressed	0.0	2.4
Macro	0.4	-1.5

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