GREYCOURT

Capital Market Flash Report

March 2019 Stock and bond investors disagreed materially in their assessment of future economic activity this month. Stock investors were generally optimistic, seeing central bank caution as extending the long recovery and profitability of corporate investments (glass half-full). Bond investors, however, interpreted the same data as confirming even slower growth and downside (glass half-empty). Both views are excessive and the truth lies in between. This divergence spotlights the prospective importance of diversification and avoiding overpriced assets.

US EQUITY

Large cap stocks, particularly growth, took recession fears in stride, reflecting optimism on trade and the benefits of central bank restraint. Despite strong labor and housing markets, falling flash PMI services and manufacturing data suggest reduced economic activity ahead. Small cap stocks bore the brunt of both pieces of data as investors focused on rising labor costs, the number of small cap financial firms, and differential leverage to large caps. Note that small caps leading to the downside is not bullish for stocks.

	Month (%)	YTD (%)
S&P 500	1.9	13.6
Russell 1000	1.7	14.0
Russell 1000 Value	0.6	11.9
Russell 1000 Growth	2.8	16.1
Russell 2000	-2.1	14.6
Russell 2000 Value	-2.9	11.9
Russell 2000 Growth	-1.4	17.1

NON-US EQUITY

Even as currency weakness reduced US dollar returns, non-US developed stocks were up 1.5% on a local currency basis (LCB), driven by a 1.6% gain for European stocks. All sectors were up, excepting financials. Earnings were not as bad as expected and the IFO confidence rose, supplying a rare piece of positive news to the negative Brexit drumbeat. Emerging markets stocks also increased by 1.4% on a LCB basis as increased liquidity chased markets with high risk premiums, including extremely cheap ex-China EM real exchange rates.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	0.7	10.4
MSCI EAFE	0.7	10.1
MSCI Europe	0.7	11.0
MSCI Japan	0.7	6.8
MSCI Emerging Markets	0.9	10.0
MSCI BRIC Index	2.5	14.0

FIXED INCOME

Cautious central bankers and weak European manufacturing data affirmed bond investors' fears, leading to aggressive buying of long-duration Treasuries. Yields fell broadly with the 10-year Treasury finishing near 2.4%. The German 10-year Bund, and even some European corporate bonds, finished with negative yields. US TIPs and high-yield bonds benefitted from falling yields and expectations of slower-but-positive growth. Lack of supply and strong demand continued to push municipal bonds to historically rich levels.

	Month (%)	YTD (%)
U.S. Intermediate Treasuries	1.2	1.6
U.S. Long Treasuries	5.3	4.7
U.S. TIPS	1.8	3.2
Corporate IG Bonds	2.2	4.4
High-Yield Bonds	0.9	7.3
Tax-Exempt Bonds	1.6	2.9

CURRENCIES

The US dollar and yen strengthened as investors sought refuge from a continuing global growth slowdown. Markets interpreted dovish central bank actions as resignation, betting that the US is better positioned for differential positive growth going forward. The Euro fell in response to the ECB's easing and negative prospects for the eurozone and Italy. EM currencies gave back some year-to-date gains as traders reassessed the risks of higher yielding currencies, especially the appropriately maligned Turkish lira.

	Month (%)	YTD (%)
US Dollar	1.2	1.2
Euro	-1.3	-2.2
Yen	0.5	-1.1
Emerging Markets[1]	-0.4	1.6

REAL ASSETS

Oil had another good month as OPEC continued to restrict supply, US sanctions hit Iran and Venezuela, and central bank easing improved the outlook for fuel demand. Natural gas prices, however, fell globally on record output. Copper and industrial metals were hurt by disappointing Chinese economic data, while US dollar strength pushed gold down. REITs surged on falling interest rates and a jump in home sales. MLPs also surged because of business efficiencies and sizeable cash reserves to fund distributions and capex.

	Month (%)	YTD (%)
Commodities[2]	-0.2	6.3
Energy	0.7	15.9
Industrial Metals	0.9	12.8
Gold	-1.6	0.9
Master Limited Partnerships[3]	3.4	16.8
Real Estate Investment Trusts[4]	3.3	16.3

HEDGE STRATEGIES

Macro strategies led monthly returns with managers taking advantage of the strong US dollar and falling bond yields. Equity hedge managers realized positive returns by effective leverage and sector positioning, especially month-long net purchases of information technology stocks. Skilled trading in energy and consumer discretionary stocks, and bearish positioning in US and European financials, also worked well. Distressed and event driven strategies were impacted by lower growth expectations and widening deal spreads.

	Month (%)	YTD (%)
Equity Hedge	0.8	6.0
Equity Market Neutral	1.0	-0.3
Event Driven	-1.5	0.8
Distressed	-0.5	2.0
Macro	1.3	0.1

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