GREYCOURT

Capital Market Flash Report

April 2019 Stocks continued to soar on stronger-than-expected US headline growth, stable-and-low inflation and interest rates, accommodative central banks, positive earnings surprises, and a potential successful resolution to US-China trade issues. Optimism over growth and profits, however, should be tempered by declining final-sales-to-domestic-purchasers data and a likely year-over-year contraction in the S&P 500 blended profit margin for the first quarter. Likewise, implied volatilities at near-secular lows are anticipating a future that is too calm.

US EQUITY

The S&P 500 set a record high as stable manufacturing PMI data helped sustain confidence in the US economy. Investors favored large stocks over small stocks and large stocks with greater market exposures. As a result, cyclical sectors had strong returns and large growth outperformed value. Small stocks increased less than large stocks as the S&P 600 Index beat the Russell 2000 Index, reflecting investor demand for companies with better earnings. This fact also explains small value's outperformance.

	Month (%)	YTD (%)
S&P 500	4.0	18.2
Russell 1000	4.0	18.6
Russell 1000 Value	3.5	15.9
Russell 1000 Growth	4.5	21.3
Russell 2000	3.4	18.5
Russell 2000 Value	3.8	16.2
Russell 2000 Growth	3.0	20.7

NON-US EQUITY

Non-US stock performance was bolstered by resilient growth in China and the US. Developed stocks benefitted from improved manufacturing PMI data in France, Germany, and Japan. Emerging markets stocks posted stellar returns in South Africa, Mexico, and the EMEA block as rebounding growth induced investors to pursue riskier and more reasonably priced assets. Asian stocks were mixed given concerns over the composition of growth and concerns the PBoC might stay its stimulus efforts.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	2.7	13.4
MSCI EAFE	2.9	13.3
MSCI Europe	3.7	15.1
MSCI Japan	1.4	8.3
MSCI Emerging Markets	2.1	12.3
MSCI BRIC Index	1.7	15.9

FIXED INCOME

High yield bonds surged on reports of increased consumer spending and durable goods and nondefense capital goods orders. While long Treasuries fell, the strong US economic data provided support to TIPs with expectations of some benign inflation growth. Nevertheless, increased US jobless claims and uncertainties in the eurozone supported Treasuries. Bond traders remain more cautious than their equity counterparts, especially as Europe struggles with negative yields that limit the capacity to accelerate growth.

	Month (%)	YTD (%)
U.S. Intermediate Treasuries	0.0	1.6
U.S. Long Treasuries	-1.8	2.8
U.S. TIPS	0.3	3.5
Corporate IG Bonds	0.3	4.7
High-Yield Bonds	1.4	8.8
Tax-Exempt Bonds	0.4	3.3

CURRENCIES

The US dollar was strong primarily because dovish actions by other central banks negated much of the anticipated convergence in sovereign yields. The euro rebounded at the end of April after hitting two-year lows after the ECB cut its growth forecasts, and Germany's Ifo business climate index declined. Positive US economic activity and the ineffectiveness of Japanese monetary and fiscal polices negatively impacted the yen. EM currencies modestly declined on sizeable issues in Turkey and Argentina.

	Month (%)	YTD (%)
US Dollar	0.2	1.4
Euro	0.0	-2.2
Yen	-0.5	-1.6
Emerging Markets[1]	-0.2	1.4

REAL ASSETS

Oil jumped after the Trump administration ended Iranian sanction waivers and Venezuela remained in turmoil. OPEC responded by considering increased output which raised energy volatility at month end. Natural gas fell on reduced Asian demand. Investors exited MLPs before earnings reports. Falling copper and other industrial metals signaled wariness over Chinese growth. Gold traded off on growth and relative stability while REITs were largely unchanged despite news of tougher rent control laws in many states.

	Month (%)	YTD (%)
Commodities[2]	-0.4	5.9
Energy	4.3	20.9
Industrial Metals	-3.4	9.0
Gold	-0.8	0.1
Master Limited Partnerships[3]	-1.3	15.3
Real Estate Investment Trusts[4]	-0.2	16.1

HEDGE STRATEGIES

Directional equity managers adjusted positions and gross leverage to take advantage of large cyclical sector returns, especially through shorts in health care. Less dispersion, poor trading, and negative short positions pushed equity neutral managers into negative territory for the year. Event driven strategies successfully navigated the active mergers market. Macro strategies performed best, increasing their Asia-Pacific and North American exposures in response to changing asset yield spreads and currencies.

	Month (%)	YTD (%)
Equity Hedge	0.6	6.6
Equity Market Neutral	-0.5	-1.0
Event Driven	0.5	1.3
Relative Value Arbitrage	0.2	2.7
Macro	1.2	0.3

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