G R E Y C O U R T

Capital Market Flash Report

May 2019 Escalating trade tensions heightened global growth fears, evoked memories of last December's market turmoil, and sent investors running to the safety of US Treasury bonds. With US corporate capital expenditures and financial spending turning over, and China's manufacturing sector contracting, prior growth optimism is increasingly yielding to recession fear. Investors are handicapping a high likelihood of Fed easing, thereby setting the stage for disappointment, volatility, and market correction.

US EQUITY

The S&P 500 experienced its first down month this year with four back-to-back weekly losses that had not occurred in the past six months. Investors revealed their growth and profit anxieties as larger stocks outperformed smaller stocks, and defensive sectors clearly outperformed cyclical sectors (technology stocks fell nearly 9% in May). Momentum characteristics, however, proved resilient despite high levels of policy uncertainty, market volatility, and falling dispersion in relative stock returns.

	Month (%)	YTD (%)
S&P 500	-6.4	10.7
Russell 1000	-6.4	11.0
Russell 1000 Value	-6.4	8.5
Russell 1000 Growth	-6.3	13.7
Russell 2000	-7.8	9.3
Russell 2000 Value	-8.2	6.7
Russell 2000 Growth	-7.4	11.8

NON-US EQUITY

Non-US stocks fell, yet outperformed US stocks on a local currency basis. Measured in US dollars, most non-US stock indices fell further, with the exception of Japan whose yen is still viewed as a currency safe haven. Brexit and the fiscal nightmare that is Italy pressured all European stocks while trade-sensitive sectors were hit particularly hard. As Brazil, Latin America's largest economy, contracted for the first time since 2016, significant capital outflows across emerging markets helped tank Asian and Chinese stock markets.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	-5.3	7.5
MSCI EAFE	-4.7	8.0
MSCI Europe	-5.3	9.1
MSCI Japan	-4.0	4.0
MSCI Emerging Markets	-7.2	4.2
MSCI BRIC Index	-7.6	7.1

FIXED INCOME

Global bond yields fell to multiyear lows over growth and trade concerns. The 10-year US Treasury closed at 2.14% yield and the 10-year German Bund fell to a record low negative 0.21% yield. In the flight-to-safety trade, long US Treasury bonds appreciated dramatically as high-yielding credits were battered. TIPS appreciated as a risk-free investment with little to no incremental charge for inflation protection. Taxable investors seeking after-tax yield piled into tax-exempt municipal bonds.

	Month (%)	YTD (%)
U.S. Intermediate Treasuries	1.5	3.1
U.S. Long Treasuries	6.5	9.5
U.S. TIPS	1.7	5.2
Corporate IG Bonds	1.1	5.9
High-Yield Bonds	-1.2	7.5
Tax-Exempt Bonds	1.4	4.7

CURRENCIES

Trade tensions sent investors racing to the perceived safety of the US dollar and Japanese yen, evidencing little worry about the relative impact of expected Fed rate cuts. The euro fell as the ECB discussed additional policy measures to shore up weak growth and political instabilities as interest rates became more negative. Emerging currencies were punished as expected, and the Mexican peso fell 2.5% immediately after President Trump issued new tariff threats in response to US border control issues.

	Month (%)	YTD (%)
US Dollar	0.3	1.6
Euro	-0.4	-2.6
Yen	2.9	1.2
Emerging Markets[1]	-1.2	0.2

REAL ASSETS

Oil prices dropped precipitously on global oversupply fears. US inventories grew at their quickest pace since 2016, and the US-China trade dispute increased the odds of reduced forward demand for oil. Industrial metals and copper fell against growth and trade fears while MLPs performed well based on natural gas and refined products pipeline volumes. Falling rates outweighed growth concerns as REITs posted a modest positive return. Gold buying indicated attention to the wide range of current geopolitical uncertainties.

	Month (%)	YTD (%)
Commodities[2]	-3.4	2.3
Energy	-12.0	6.4
Industrial Metals	-5.9	2.6
Gold	1.7	1.8
Master Limited Partnerships[3]	-1.1	13.9
Real Estate Investment Trusts[4]	0.2	16.3

HEDGE STRATEGIES

Equity hedge managers were slow to leave cyclical sectors and were squeezed by falling markets, increasing volatility, and reduced dispersions across stock returns. Technology shorts and real estate trading did, however, mitigate larger losses. Event driven and macro strategies navigated volatile conditions well enough to avoid large losses, while equity market neutral strategies added no value. Relative value managers took advantage of bond market gains; nonetheless, no hedge strategy outperformed risk-free bonds.

	Month (%)	YTD (%)
Equity Hedge	-1.9	4.7
Equity Market Neutral	0.0	-1.1
Event Driven	-0.4	0.8
Relative Value Arbitrage	0.1	3.0
Macro	-0.2	0.0

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