GREYCOURT

Capital Market Flash Report

June 2019 Global growth fears were temporarily assuaged by the Fed's dovish suggestion that rate cuts are on the horizon. The Fed's comments were consistent with those of the ECB and other central banks. Underlying this dialogue, however, is an implicit acknowledgement of the asymmetric downside risks associated with near-zero interest rates, extended central bank balance sheets, little to no reflation after a decade of earnest effort, and extraordinary levels of public sector and private debt. On the bright side, easing should push asset prices up.

US EQUITY

Given modest inflation, weak economic data, and significant trade uncertainty, the Fed affirmed expectations of rate cuts coming soon. In Pavlovian fashion, investors responded by driving the S&P 500 to its best June since 1955 and strongest first half since 1997. High beta stocks and cyclical sectors dominated performance as size, style, and all sectors surged. With two quarters of year-over-year earnings declines looming, significant negative EPS guidance, and elevated valuations, US stock buyers are wearing rose-colored glasses.

	Month (%)	YTD (%)
S&P 500	7.0	18.5
Russell 1000	7.0	18.8
Russell 1000 Value	7.2	16.2
Russell 1000 Growth	6.9	21.5
Russell 2000	7.1	17.0
Russell 2000 Value	6.4	13.5
Russell 2000 Growth	7.7	20.4

NON-US EQUITY

Bad news was good news as weak growth and US-China trade uncertainties convinced investors the ECB would ease. European stocks led EAFE higher as significant appreciation in the Euro boosted already high local market returns. China led the BRICs on strong consumer stock returns in response to stimulus, positive trade sentiment, and favorable valuations. Other emerging markets rose considerable on a local currency basis and were boosted in US dollar terms by the very strong performance of high-yielding currencies.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	6.1	14.0
MSCI EAFE	6.0	14.5
MSCI Europe	6.8	16.5
MSCI Japan	3.8	8.0
MSCI Emerging Markets	6.3	10.8
MSCI BRIC Index	6.4	13.9

FIXED INCOME

Bond investors did not share the confidence implied by stock returns. US Treasury yields fell for a third quarter while eurozone yields were consistently negative. Credit spreads, however, did not widen significantly as buyers handicapped the positive impact of rate cuts on future growth. Demand for TIPs surged as the price of unexpected inflation protection fell. Long-run yield expectations are increasingly focusing on global debt levels, aging demographics, and the continuing inability of central banks to engineer reflation.

	Month (%)	YTD (%)
U.S. Intermediate Treasuries	0.8	4.0
U.S. Long Treasuries	1.3	11.0
U.S. TIPS	0.9	6.2
Corporate IG Bonds	2.2	8.2
High-Yield Bonds	2.3	9.9
Tax-Exempt Bonds	0.4	5.1

CURRENCIES

The Fed will most likely cut rates going forward to prolong US expansion in the face of slowing global growth. Based on the performance of the euro and EM currencies, investors were nonetheless discounting a Fed easing cycle consistent with reflationary steepening of the yield curve and a weaker US dollar. Investors also sought out exotic high yielding currencies such as the Egyptian pound and Ukrainian hryvnia that have been less correlated with recent trade issues, despite the checkered past of currency correlation trades.

	Month (%)	YTD (%)
US Dollar	-1.7	0.0
Euro	1.8	-0.8
Yen	0.4	1.6
Emerging Markets[1]	2.0	2.2

REAL ASSETS

Investors shifted their focus to decreasing US oil inventories, increasing Middle East tensions, and the likelihood OPEC+ would extend oil production cuts. Sweltering heat helped stabilize natural gas prices, and gold continued a significant run given the Fed's posture on rate cuts and the uncertainties created by the US-China trade disputes and sanction threats. MLPs and REITs benefitted from expectations of continued expansion and from sharply falling Treasury yields that will be difficult to duplicate prospectively.

	Month (%)	YTD (%)
Commodities[2]	2.7	5.1
Energy	4.0	10.6
Industrial Metals	2.0	4.7
Gold	8.0	10.0
Master Limited Partnerships[3]	2.6	17.0
Real Estate Investment Trusts[4]	1.3	17.8

HEDGE STRATEGIES

Hedge managers increased gross exposures above average later in the month to take advantage of running markets. Net exposures remained well below averages across regions, with the exception of North American positioning. Long exposures to cyclical sectors and financials added to directional hedge performance. Resurgent M&A activity in energy helped event driven managers as relative value arbitrage managers profited from energy positions. Global macro managers benefitted from trends across assets.

	Month (%)	YTD (%)
Equity Hedge	1.3	5.8
Equity Market Neutral	0.0	-1.2
Event Driven	1.4	2.3
Relative Value Arbitrage	1.1	4.1
Macro	2.4	2.4

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