GREYCOURT

Capital Market Flash Report

August 2019 Bond yields cratered as volatile stock markets experienced losses. Struggling with slow growth and low inflation, central banks are returning to aggressive stimulus. With gold and reserve currencies up, bond yields near zero and in many cases negative, and commodity prices falling, markets are worried central banks won't have what it takes prospectively to engineer growth. Earnings yields still favor stocks, and the US consumer is strong. We believe spending will continue and that bond markets are overly pessimistic at this time.

US EQUITY

Uncertainty and fear regarding US-China trade, coupled with mixed economic data, made for a very volatile August. Led by small cap stocks that have greater downside exposure to recessionary periods, stocks across all cap sizes and styles declined. Utilities, Real Estate, and Consumer Staples rose on defensive buying, including the performance of stocks such as Target that was up almost 25% in August. Low volatility was predictably the top factor performer as crashing bond yields buttressed the demand for stocks on a relative yield basis.

	Month (%)	YTD (%)
S&P 500	-1.6	19.4
Russell 1000	-1.8	19.5
Russell 1000 Value	-2.9	14.7
Russell 1000 Growth	-0.8	24.5
Russell 2000	-4.9	12.7
Russell 2000 Value	-5.6	7.8
Russell 2000 Growth	-4.3	17.6

NON-US EQUITY

Near-contraction weakness in Germany and prospects for a no-deal Brexit pushed non-US developed stocks down. Local currency losses for European stocks increased on a US dollar basis because of the strong US dollar while local currency losses for Japanese stocks were reduced on a US dollar basis by the strong yen. US-China trade issues and violent unrest in Hong Kong caused regional sell-offs while Latin American stocks were hit by losses in Argentina and Brazil. Growth fears and a strong US dollar exacerbated a flight to safety.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	-3.1	9.7
MSCI EAFE	-2.6	10.6
MSCI Europe	-2.5	11.8
MSCI Japan	-1.0	7.7
MSCI Emerging Markets	-4.8	4.5
MSCI BRIC Index	-4.8	8.1

FIXED INCOME

After the Fed cut interest rates in July, bond yields collapsed across the globe delivering a spectacular month for bond investors. The 10-year Treasury yield fell below 1.5%, and the yield curve inverted. Fears of recession and negative yields across non-US markets prompted a flight to quality and a search for yield. TIPS and investment grade bonds had very strong returns as insatiable demand and limited supply amplified municipal bond returns. Negative real yields on the 10-year US Treasury reveal pessimistic growth expectations.

	Month (%)	YTD (%)
U.S. Intermediate Treasuries	1.8	5.9
U.S. Long Treasuries	10.5	23.3
U.S. TIPS	2.4	9.3
Corporate IG Bonds	2.9	11.8
High-Yield Bonds	0.4	11.2
Tax-Exempt Bonds	1.6	7.6

CURRENCIES

Free-falling bond yields and negative yields across Japan and Europe signaled fears of recession and deflation. In response, investors bought US dollars to pursue the safety and higher yields available in the US. China's currency dropped 3.8% against the US dollar in August, catching up with other Asian currencies. The euro hit a two-year low to the US dollar and underperformed the pound, aided by political turmoil in Italy. The yen remained a safety currency, while Argentina imposed currency controls after its peso fell by over 25%.

	Month (%)	YTD (%)
US Dollar	0.4	2.6
Euro	-0.8	-4.0
Yen	2.4	3.8
Emerging Markets[1]	-3.3	-1.1

REAL ASSETS

Commodities trended down, with the exception of precious and industrial metals. Despite a strengthening US dollar, gold continues to rise on fears of currency depreciation and debt-monetization. Nickel prices spiked to a five-year high as Indonesia, the second largest exporter, halted exports to expand its local smelting industry. Excess supply and muted expectations of demand for energy drove prices lower. MLPs broadly traded in tandem with oil prices, and falling interest rates propelled REITs to another strong month.

	Month (%)	YTD (%)
Commodities[2]	-2.3	0.8
Energy	-5.7	1.5
Industrial Metals	0.5	6.0
Gold	6.5	18.3
Master Limited Partnerships[3]	-5.5	12.0
Real Estate Investment Trusts[4]	3.4	23.7

HEDGE STRATEGIES

With spiking volatility, most hedge funds posted losses in August. Fundamental long/short managers underperformed because of net exposure, while demonstrating significant risk-adjusted selection skill. Systematic long/short managers, however, gave up return through poor selection. Positions tended to rotate out of North America and Asia into Europe and EM. Shorts in Italy were particularly successful. Event driven managers handicapped M&A well while global macro strategies profited from swings in rates and currencies.

	Month (%)	YTD (%)
Equity Hedge	-0.5	6.9
Equity Market Neutral	-1.1	-2.5
Event Driven	0.5	4.2
Relative Value Arbitrage	-0.1	4.3
Macro	1.5	6.0

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