GREYCOURT

Capital Market Flash Report

October 2019 Stronger-than-expected corporate earnings in the US, improved US-China trade discussions, and a material shift in Fed policy and posture eased investor fears of imminent recession. The Fed's move will likely extend the economic expansion and help sustain household spending. As a result, yields increased and yield curves modestly steepened, and the US dollar fell. The Fed's patient and reassuring signaling reduced volatility significantly and reversed extremes of negative sentiment.

US EQUITY

Better-than-expected corporate profits, an "insurance cut" in interest rates by the Fed, and signs of improving US-China trade negotiations, alleviated investor fears of a growth recession and drove stock prices to record highs late in the month. Predictably, small cap stocks outperformed large cap stocks and cyclical sectors outperformed defensive sectors. The strong rotation into value in September reversed as growth once again provided higher returns than value. Fear, as measure by the VIX, fell 19% over the month.

	Month (%)	YTD (%)
S&P 500	2.2	24.2
Russell 1000	2.1	24.2
Russell 1000 Value	1.4	20.4
Russell 1000 Growth	2.8	28.0
Russell 2000	2.6	18.1
Russell 2000 Value	2.4	16.1
Russell 2000 Growth	2.8	19.9

NON-US EQUITY

Non-US stock returns in US dollars were nearly double local currency returns as the US dollar fell significantly. Investors interpreted BoJ Governor Kuroda's September 24th speech as implying future monetary easing: coupled with US-China trade progress, Japanese stocks soared. Despite progress on Brexit, Europe struggled on a local currency basis (+ 0.5%). BRIC, especially Russia, and Asian EM stocks had strong gains in reaction to favorable trade, improving commodity prices, and to a declining US dollar.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	3.5	16.5
MSCI EAFE	3.6	18.0
MSCI Europe	3.2	18.6
MSCI Japan	4.9	17.7
MSCI Emerging Markets	4.2	11.1
MSCI BRIC Index	4.8	14.5

FIXED INCOME

The Fed executed its third rate cut later in the month and indicated that it would hold on further cuts for the time being. With expectations of prolonged expansion, all sectors outperformed longer duration Treasuries. The highest risk sectors, including preferred stocks and corporate bonds had the highest total returns. Senior loans and emerging market debt performed next best. Municipals and municipal high yields had positive returns. Although inflation is well under control, TIPs continued a strong year.

	Month (%)	YTD (%)
U.S. Intermediate Treasuries	0.3	5.8
U.S. Long Treasuries	-0.9	19.2
U.S. TIPS	0.3	8.1
Corporate IG Bonds	0.4	11.3
High-Yield Bonds	0.3	11.9
Tax-Exempt Bonds	0.2	7.0

CURRENCIES

With expectations of improving growth and a desire to take greater market risk, investors sold out of US Treasuries in pursuit of other currency returns. The British sterling and the euro had strong months against the US dollar as the risks of a no deal Brexit dropped materially. The yen remained flat while emerging markets currencies had a strong month with the notable exception of the Turkish lira that fell significantly after Turkey's offensive against the Kurds and Washington's threat of retaliatory sanctions.

	Month (%)	YTD (%)
US Dollar	-2.0	1.0
Euro	2.3	-2.6
Yen	0.0	2.1
Emerging Markets[1]	1.9	1.5

REAL ASSETS

Commodity prices firmed in response to US-China trade talks and the falling US dollar. Natural gas prices jumped as several shale producers independently announced intentions to limit output given the current gas glut. Industrial metals also increased with the exception of nickel which is trading nearly two standard deviations above its long-term average. China's central bank purchased over 5 tons of gold last month helping push gold prices higher. REITs modestly rose on the Fed rate cut while MLPs remain out of favor.

	Month (%)	YTD (%)
Commodities[2]	2.0	4.0
Energy	1.6	4.3
Industrial Metals	1.8	8.5
Gold	3.0	17.5
Master Limited Partnerships[3]	-6.2	5.8
Real Estate Investment Trusts[4]	1.4	29.0

HEDGE STRATEGIES

Directional equity strategies significantly underperformed a beta-adjusted S&P 500, because managers failed to rotate out of value stocks quickly enough and had losses on short information technology positions. Event driven managers had a strong month handicapping deals and modest dispersion aided relative value strategies. Macro strategies, however, performed especially poorly as managers were net sellers of all geographic regions except Europe and did not trade the US dollar well.

	Month (%)	YTD (%)
Equity Hedge	0.4	8.7
Equity Market Neutral	0.4	-0.6
Event Driven	1.2	6.5
Relative Value Arbitrage	0.3	5.0
Macro	-1.5	3.4

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 two-day lag. For complete Index Descriptions, see http://www.greycourt.com/indices.html