G R E Y C O U R T

Capital Market Flash Report

November 2019 Investors, acknowledging the turn by almost all central banks to highly accommodative monetary policies, discounted improving economic activity that entails corporate earnings growth rebounding next year. Steepening yields curves confirmed these positive expectations, even as interest rates and inflation remain low in response to the secular pressures exerted by high debt levels, lackluster productivity, and aging populations. Political uncertainty and limits to monetary policy have not disappeared and warrant caution.

US EQUITY

US stock indices retreated somewhat from record highs on the last trading day of the month. Nonetheless, the S&P 500, the DJIA, and the Nasdaq Composite posted their largest monthly gains since June. Positive economic and trade data supported stocks as investors ignored differences in NIPA profits and S&P 500 earnings. Small cap stocks outperformed large cap stocks, growth outperformed value, and cyclicals sectors outpaced defensive ones. Consistent with diminished fear and increased risk taking, the VIX fell by 4.5 percent to 12.62.

	Month (%)	YTD (%)
S&P 500	3.6	28.7
Russell 1000	3.8	28.9
Russell 1000 Value	3.1	24.1
Russell 1000 Growth	4.4	33.7
Russell 2000	4.1	23.0
Russell 2000 Value	2.3	18.9
Russell 2000 Growth	5.9	27.0

NON-US EQUITY

Renewed US-China trade optimism, stronger than expected German jobs data, and rebounding eurozone inflation pushed European stocks to their highest level since January 2018. EM stocks fell, however, as weaker commodity prices impacted exporting countries such as Indonesia and Russia. Political upheaval in Chile and Colombia depressed Latin American stock markets. As of month end, investors were also waiting to see how China will retaliate in response to the US bill backing protestors in Hong Kong.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	0.9	17.5
MSCI EAFE	1.1	19.3
MSCI Europe	1.5	20.4
MSCI Japan	0.6	18.3
MSCI Emerging Markets	-0.1	10.9
MSCI BRIC Index	0.3	14.8

FIXED INCOME

As expectations of extended slow growth built, interest rates increased and the yield curve steepened. TIPs continued year-to-date gains, and high yield credits outperformed investment grade credits. Although economic growth was a factor, significant debt issuance by higher rated companies has weakened their balance sheets such that a slowdown or recession would increase the risk of ratings downgrades when compared to high yield issuers. Tax exempt bonds benefitted from significant inflows and demand.

	Month (%)	YTD (%)
U.S. Intermediate Treasuries	-0.3	5.5
U.S. Long Treasuries	-0.5	18.6
U.S. TIPS	0.2	8.2
Corporate IG Bonds	0.1	11.4
High-Yield Bonds	0.3	12.3
Tax-Exempt Bonds	0.3	7.2

CURRENCIES

Positive trade developments and stronger economic data eased concerns about a possible downturn in the US economy any time soon. As a result, investors bought the US dollar and US dollar assets. Expectations that the ECB and BoJ will continue to expand less-effective monetary policies pushed down the euro and yen. Emerging market currencies, especially the Chilean peso and the Brazilian real, were battered as Latin American social and political unrest started whispers of "contagion" and region-wide currency sell offs.

	Month (%)	YTD (%)
US Dollar	0.9	1.9
Euro	-1.2	-3.7
Yen	-1.3	0.7
Emerging Markets[1]	-0.5	1.1

REAL ASSETS

Commodity prices continued to be weighed down by excess supply and slower global growth. Oil investors reacted to violence in Hong Kong while natural gas futures fell roughly 40 percent from last year on supply and weather worries. Industrials metals fell in concert, led by nickel prices that had spiked earlier in the year. Gold gave back some of its strong year-to-date gains as investor sentiment on growth and the US dollar improved. MLPs remained out of favor, while REITs responded to interest rates and retailer sales figures.

	Month (%)	YTD (%)
Commodities[2]	-2.6	1.4
Energy	-2.6	1.6
Industrial Metals	-4.9	3.2
Gold	-3.1	13.8
Master Limited Partnerships[3]	-5.8	-0.3
Real Estate Investment Trusts[4]	-1.5	27.1

HEDGE STRATEGIES

Equity hedge strategies increased gross and net leverage during the month, as well as technology and cyclical exposures, to drive positive returns. Event driven managers capitalized on the substantial late-cycle boom in merger activity that included Tiffany and TD Ameritrade. Market and security correlations, however, did not provide robust opportunities for relative value or market neutral managers, while macro managers took advantage of directional moves in stocks and commodities.

	Month (%)	YTD (%)
Equity Hedge	1.1	10.0
Equity Market Neutral	-0.2	-0.6
Event Driven	1.9	8.6
Relative Value Arbitrage	0.3	5.4
Macro	1.2	4.8

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