GREYCOURT

Capital Market Flash Report

December 2019 December capped off a phenomenal year for risk assets and reflects a continuing expectation of easy money, low but positive growth, long-term low interest rates, and major hurdles to achieving material reflation. Soft data concerns are being met with hard data progress on jobs, wages, and spending, now reaching to the lowest levels of the workforce. As a result, we've seen a homogeneity of exceptional returns across assets, especially after adjusting for relative risk. Buckle up and enjoy the ride!

US EQUITY

US stocks surged to record highs on positive employment and consumer spending data, a potential trade deal with China, and rebounding oil prices. For the decade, the S&P 500 increased 190% with technology stocks having their best run since 2009. High beta exposure was the dominant factor explaining relative performance as differences between cap and styles were not as important. All sectors were positive with the exception of industrials which were flat. Sentiment surveys and PMI indices have all risen.

	Month (%)	YTD (%)
S&P 500	3.0	31.5
Russell 1000	2.9	31.4
Russell 1000 Value	2.8	26.5
Russell 1000 Growth	3.0	36.4
Russell 2000	2.9	25.5
Russell 2000 Value	3.5	22.4
Russell 2000 Growth	2.3	28.5

NON-US EQUITY

Non-US stocks posted their best monthly returns since January. Emerging markets stocks did especially well after the Phase One agreement between the US and China was announced. The MSCI EAFE and EM indices surged over 6% in the post-announcement glow with China outperforming all EM countries on a local currency basis. UK elections lowered Brexit uncertainty thereby strengthening UK and euro market returns. Even Hong Kong finished the year with a 7% rally as investors focused longer-term on trade.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	4.4	22.1
MSCI EAFE	3.3	22.7
MSCI Europe	3.9	24.6
MSCI Japan	2.1	20.1
MSCI Emerging Markets	7.5	18.9
MSCI BRIC Index	7.7	23.1

FIXED INCOME

Growth expectations drove US and other sovereign yields higher. Issuers brought significant volumes to market including European banks that continued to issue bail-in debt to strengthen their balance sheets. Despite tight spreads, increasing downgrades to many leveraged loans, and bankruptcy rulings against PG&E bondholders, investors jumped in to purchase triple-C rated junk bonds. Inflation-protected bonds also performed well given the US-China trade pact and an accommodative (pro-inflationary) Fed.

	Month (%)	YTD (%)
U.S. Intermediate Treasuries	0.0	5.2
U.S. Long Treasuries	-2.8	14.8
U.S. TIPS	0.4	8.4
Corporate IG Bonds	0.0	11.2
High-Yield Bonds	2.0	14.3
Tax-Exempt Bonds	0.3	7.5

CURRENCIES

The US dollar weakened to its lowest level since June as global interest rates moved higher, yield differentials to the US widened, and US real yields turned negative. Optimism about prospective growth prompted a sell off in eurozone bonds driving yields up. It also helped stabilize and bolster China's renminbi. Sentiment across non-dollar currencies improved markedly, although at a slower pace for the Japanese yen, Swiss franc and Canadian dollar. Several Latin American currencies also rebounded against the US dollar.

	Month (%)	YTD (%)
US Dollar	-1.9	0.2
Euro	1.8	-2.2
Yen	0.8	0.9
Emerging Markets[1]	2.1	3.1

REAL ASSETS

Commodity prices rebounded strongly led by oil and copper. Investors were optimistic about global economic growth and the prospects for Chinese consumption of industrial metals following the initial US-China trade pact. Agricultural prices rose as well, especially soybeans, after China agreed to ramp up purchases of US farm goods. After several months of poor performance, MLPs rebounded off of extremely negative sentiment as investors more dispassionately discounted growth, demand, and consolidation in the industry.

	Month (%)	YTD (%)
Commodities[2]	5.0	7.7
Energy	6.9	11.8
Industrial Metals	3.1	7.0
Gold	3.6	18.0
Master Limited Partnerships[3]	8.5	6.6
Real Estate Investment Trusts[4]	-0.6	26.0

HEDGE STRATEGIES

Fundamental equity hedge strategies continued to increase gross and net leverage to their highest levels since early 2018. Managers added significant value through stock selection, concentrated positions, and sector and momentum factor tilts as only 60% of returns are explained by market index exposures. Event driven managers also performed very well managing the massive Saudi Aramco stock offering. Low equity dispersion, however, hurt market neutral strategies and muted returns for relative value managers.

	Month (%)	YTD (%)
Equity Hedge	1.2	10.7
Equity Market Neutral	-0.8	-1.9
Event Driven	2.1	10.0
Relative Value Arbitrage	1.0	6.5
Macro	0.6	5.1

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