GREYCOURT

Capital Markets Flash Report

For the Month Ending July 31, 2016

US Equity	Jul-16	YTD
S&P 500	3.7%	7.7%
Russell 1000	3.8%	7.7%
Russell 1000 Value	2.9%	9.4%
Russell 1000 Growth	4.7%	6.1%
Russell 2000	6.0%	8.3%
Russell 2000 Value	5.4%	11.8%
Russell 2000 Growth	6.5%	4.8%
Non-US Equity		
MSCI All-Country World ex-US	5.0%	4.3%
MSCI EAFE	5.1%	0.8%
MSCI Europe	4.2%	-0.6%
MSCI Japan	6.5%	0.7%
MSCI EAFE Value	5.3%	-1.2%
MSCI EAFE Growth	4.9%	2.9%
MSCI Emerging Markets	5.1%	12.0%
MSCI BRIC	4.9%	9.7%
Fixed Income[1]		
U.S. Intermediate Treasuries	0.0%	3.7%
U.S. Long Treasuries	2.2%	17.7%
U.S. TIPS	0.9%	7.2%
Corporate IG Bonds	1.4%	8.3%
High-Yield Bonds	2.7%	12.0%
Tax-Exempt Bonds	0.1%	4.4%
Currencies		
US Dollar[2]	-0.6%	-3.1%
Euro	0.6%	2.9%
Yen	1.1%	17.8%
Emerging Markets[3]	1.0%	5.3%
Real Assets		
Commodities[4]	-5.1%	7.3%
Energy	-10.7%	-2.5%
Industrial Metals	3.2%	12.0%
Gold	2.3%	27.1%
Real Estate Investment Trusts[5]	3.9%	18.1%
Hedge Strategies[6]		
Equity Hedge	1.9%	-2.1%
Equity Market Neutral	1.2%	-3.8%
Event Driven	2.0%	5.3%
Relative Value Arbitrage	0.9%	-0.8%
Distressed	3.4%	11.1%
Macro	0.2%	-0.1%

Overview

Risk assets advanced broadly as global markets shook off Brexit, terrorist attacks, and a failed coup in Turkey. Central banks remained accommodative with the Bank of Japan maintaining its bond buying pace and policy rate consistent with similar actions by the Fed, ECB, and Bank of England. Strong income growth, rising home prices, and falling interest rates also helped push US consumer sentiment to post-2008 highs, supporting moderate household demand prospectively. July was punctuated, however, by weak US growth at 1.2% that is at odds with market-discounted increases in future corporate earnings.

US Equity

Domestic stocks fluctuated near all-time highs, bolstered by upbeat economic data, strong corporate earnings, and low bond yields driving yield-seeking investors into US equities. Led by sectors seen thriving in an expanding economy such as technology (+7.9%) and materials (+5.1%), the S&P 500 added 3.7% in July, bringing year-to-date performance to 7.7%. Better-than-expected US employment and housing data (existing sales on fastest pace in a decade) fostered confidence in the resiliency of the US economy, providing a tailwind for domestically focused small cap stocks which advanced 6%.

Non-US Equity

Non-US developed and emerging market equities rose in tandem, signaling that the immediate impact of the UK's vote to leave the European Union might be muted. While the same might not hold true for the UK, where sentiment has plunged to a three-year low, unemployment fell in Spain and Germany while Germany's business confidence was steady. Despite recent pullbacks in response to banking regulations in China and yen volatility, emerging market equities outperformed their developed counterparts advancing 5.1%.

Fixed Income

Returns across fixed income sectors were mostly positive as higher yielding asset classes were in demand by income-seeking investors. Investment grade and high yield bonds were notable outperformers, gaining 2.7% and 1.4% respectively on the back of expectations of further easing by global central banks—particularly the BoE and BoJ. US Treasury yields ended slightly lower (1.46% vs 1.49% on June 30th) as disappointing economic data in the final days of the month supported long-dated Treasuries.

Currencies

Global currency markets remained volatile after the UK's exit from the European Union and speculation over additional central bank stimulus. The British pound continues to face downward pressure despite 2Q GDP growing faster than expected (0.6% vs 0.4%) and housing prices steadily rising. Conversely, Japan's currency reversed early-month losses on July 29th, as the BoJ's much-anticipated policy announcement was underwhelming. Currency volatility and low expected asset returns are prompting investors to rethink unhedged investment programs.

Real Assets

The spring rally in energy prices have given way to summer doldrums amid an unexpected increase in US energy inventories. While initially dismissed as a low-probability event, an increase in Libyan oil production has gained traction recently amid the successful reintegration of the National Oil Company and progress in restarting oil fields. Additional production from Libya would undermine the broader energy narrative of falling supply and steady demand growth shifting oil inventories from a build to a draw.

Hedge Strategies

Hedge fund strategies were broadly positive as risk assets rebounded from their post-Brexit malaise. Distressed and event driven strategies led the way, up 3.4% and 2.0% respectively. Of particular note, investors responded to improving hedge returns with significant capital inflows ($42b) bringing investment in hedge strategies to its highest level in twelve months.

Data Source: Bloomberg. MSCI returns are gross USD. Currency returns are Simple Price Appreciation (SPA) USD basis. [1] Fixed Income reported on Barclays Indices. [2] US Dollar Index [3] MSCI Emerging Markets Currency Index [4] Bloomberg Commodity Indices [5] FTSE NAREIT Equity REIT Index [6] Hedge strategy returns are SPA reported on HFRX Indices with one day lag . For complete Index Descriptions, see http://www.greycourt.com/indices.html

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