

GREY COURT

Capital Market Flash Report

November 2018 Late in the month with real rates still near zero, Chairman Powell said interest rates were “just below” broad estimates of neutral. Investors interpreted his remarks as precursor to a dovish pause by the Fed. Markets surged and erased most monthly losses. With central banks retracting liquidity over the last year, however, asset yields and discount rates have risen steadily, putting pressure on asset prices. A Fed pause won’t halt this trend but will extend US growth, restrain the US dollar, and provide pricing support globally.

US EQUITY

After October’s volatility, US stocks stabilized somewhat and then advanced sharply on a 12-to-1 (up/down) volume day after Chairman Powell’s remarks. Projections of slowing GDP and capex were mitigated by strong corporate earnings that beat market expectations. Large-cap growth stocks underperformed value on energy losses and price-shedding among FAANG stocks. Value stocks served as a haven for investors across market cap. With little slack in the economy, defensive healthcare performed well.

	Month (%)	YTD (%)
S&P 500	2.0	5.1
Russell 1000	2.0	4.8
Russell 1000 Value	3.0	1.5
Russell 1000 Growth	1.1	7.8
Russell 2000	1.6	1.0
Russell 2000 Value	1.6	-0.9
Russell 2000 Growth	1.6	2.7

CURRENCIES

The US dollar fluctuated throughout the month and fell in response to Powell’s comments. Nonetheless, the US dollar rose at month end in anticipation of the Trump-Xi meeting in Buenos Aires. Investors bought the US dollar believing it would fare best if trade negotiations went badly. Lower core inflation in the eurozone and an expected rate hike by the ECB helped stabilize the euro, while the yen reacted to continuing BOJ inaction. Emerging market currencies rebounded significantly from cyclical lows.

	Month (%)	YTD (%)
US Dollar	0.1	5.6
Euro	0.0	-5.7
Yen	-0.5	-0.7
Emerging Markets ¹	1.5	-4.2

NON-US EQUITY

Developed market stocks fell modestly even with stronger economic data in Japan and Australia. Europe pulled down stock returns as economic and consumer confidence were markedly down. German retail sales slumped and anxiety over Italy and Brexit persist. Emerging markets rallied on falling US rates and strengthening EM currencies. Asian stocks performed best despite concerns about China’s domestic demand and Trump-Xi trade summit tensions. Further declines in the US dollar will help EM asset prices.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	1.0	-9.7
MSCI EAFE	-0.1	-9.0
MSCI Europe	-0.9	-10.2
MSCI Japan	0.4	-6.3
MSCI Emerging Markets	4.1	-12.0
MSCI BRIC Index	5.7	-9.4

REAL ASSETS

Booming output in the US, Russia, and Saudi Arabia—and US sanction waivers on Iranian oil sales—sent oil prices plunging even as OPEC attempts to limit global supply. MLP returns were muted as a result. Industrial metals had mixed performance with a steel glut in China and PMIs down across Germany, the UK, Japan, and the US. Natural gas was a bright spot as cold weather reduced stockpiles. The weakened US dollar lifted gold prices and REITs soared on falling interest rates and the strength of Mall REITs.

	Month (%)	YTD (%)
Commodities ²	-0.6	-4.7
Energy	-3.3	7.4
Industrial Metals	1.9	-15.1
Gold	0.6	-7.2
Master Limited Partnerships ³	-0.8	-3.4
Real Estate Investment Trusts ⁴	4.7	3.9

FIXED INCOME

Notwithstanding a surge in supply to fund US tax cuts, US Treasuries appreciated as falling oil prices and Chairman Powell’s comments softened rate and inflation expectations. Brexit uncertainty and volatility also made US government debt attractive. TIPS posted a modest gain on speculation that tariffs and wages might force higher inflation. Credit lagged as investors noted that 50% of investment-grade corporate debt is rated BBB and reconsidered downgrade risk and the capacity for debt service going forward.

	Month (%)	YTD (%)
U.S. Intermediate Treasuries	0.7	-0.1
U.S. Long Treasuries	1.9	-6.9
U.S. TIPS	0.5	-1.8
Corporate IG Bonds	-0.4	-6.0
High-Yield Bonds	-0.9	0.1
Tax-Exempt Bonds	1.1	0.1

HEDGE STRATEGIES

Rising asset yields and widespread volatility challenged hedge fund managers. Equity, event driven, and distressed strategies were hurt by elevated market exposures and a significant rotation in risk factors as growth and momentum stocks underperformed value and low beta stocks. There was significant dispersion among managers who were selling FAANG stocks before they tanked and managers who maintained their positions. Likewise, falling oil prices took a toll on managers in small- and mid-cap energy stocks.

	Month (%)	YTD (%)
Equity Hedge	-0.8	-5.6
Equity Market Neutral	-1.9	-3.1
Event Driven	-0.9	-10.6
Distressed	-1.4	-8.1
Macro	-0.6	-4.4