

GREY COURT Capital Market Flash Report

US EQUITY

A supportive Fed, seeming progress in US-China talks, and positive consumer spending evidenced by larger online sales helped push the S&P 500 to its best year-to-date performance in twenty-two years. Volatility collapsed as the VIX fell nearly 15% while investors realized gains in growth stocks, reduced defensive positions, and rotated into previously out-of-favor cyclical sectors and value stocks. Utilities topped sector performance, with buybacks and value leading factor returns, revealing a distinct income preference.

	Month (%)	YTD (%)
S&P 500	1.9	21.6
Russell 1000	1.7	21.6
Russell 1000 Value	3.6	18.8
Russell 1000 Growth	0.0	24.5
Russell 2000	2.1	15.1
Russell 2000 Value	5.1	13.4
Russell 2000 Growth	-0.8	16.6

CURRENCIES

With US growth holding steady and US-China trade talks progressing, the US dollar appreciated modestly. Declining industrial output in the eurozone, led by Germany, weakened the euro against the US dollar. Likewise, the yen fell against the US dollar as PMI data continued to disappoint, and Japanese exports fell for the ninth consecutive month. China's relaxation of certain tariffs and rebounding manufacturing data helped lift already cheap emerging markets currencies against the US dollar.

	Month (%)	YTD (%)
US Dollar	0.5	3.1
Euro	-0.8	-4.8
Yen	-1.7	2.0
Emerging Markets ¹	0.8	-0.4

September 2019 Bond yields jumped mid-month as investors ratcheted down their fear of imminent recession from last month's near-hysterical levels. Despite reducing interest rates to accelerate growth, the Fed did not forecast additional cuts in 2019. This patient and ostensibly reassuring signal helped knock the wind out of market volatility and reversed extremes of negative sentiment. As a result, stock prices rose while most bond prices and gold fell. Markets reacted by rotating out of past winners and defensive plays into value stocks.

NON-US EQUITY

A supportive ECB, falling unemployment, and eurozone wages growing at their fastest pace since 2009 pushed European stocks up over 3% on a local currency basis. Japanese stocks rose on a partial trade deal with the US and progress toward ending the trade war with South Korea. China's suspension of tariffs on several US imports, combined with economic data indicating an increase in lending in August in response to stimulus, helped non-US stocks broadly and most emerging markets stocks.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	2.6	12.5
MSCI EAFE	2.9	13.9
MSCI Europe	2.7	14.9
MSCI Japan	4.2	12.2
MSCI Emerging Markets	1.9	6.6
MSCI BRIC Index	1.1	9.3

REAL ASSETS

Commodities benefitted from outsized returns in agriculture and livestock. Energy prices surged after attacks on Saudi Arabia's oil producing infrastructure that drove Brent crude prices to the largest single-day jump in thirty years. Industrial metals gained on improved trade sentiment and ESG standards as gold fell on reduced fears of recession. REITs were aided by the Fed's interest rate cuts—as were MLPs—and a rebound in pending home sales across all geographic regions and low long-term interest rates.

	Month (%)	YTD (%)
Commodities ²	1.2	2.0
Energy	1.1	2.7
Industrial Metals	0.5	6.6
Gold	-3.5	14.1
Master Limited Partnerships ³	0.7	12.8
Real Estate Investment Trusts ⁴	2.9	27.3

FIXED INCOME

Issuers stepped in early in the month to capitalize on record-low yields by issuing over \$430 billion in corporate debt. Responding to Fed forecasts and positive economic data, bond investors mid-month realized they had overreacted last month and sold off positions as recession fears decreased. An important repo market liquidity hiccup occurred late in the month when the New York Fed mismanaged corporate demands for funds, reminding markets of the challenges central bankers will face in the next crisis period.

	Month (%)	YTD (%)
U.S. Intermediate Treasuries	-0.4	5.4
U.S. Long Treasuries	-2.5	20.2
U.S. TIPS	-1.4	7.8
Corporate IG Bonds	-0.9	10.8
High-Yield Bonds	0.4	11.6
Tax-Exempt Bonds	-0.8	6.8

HEDGE STRATEGIES

Hedge fund managers were challenged in September by the significant reversal in factor returns that occurred mid month. Momentum strategies in particular suffered even as directional managers recouped some of their earlier losses by rotating into a range of value factors. Market neutral managers took advantage of cross sectional volatility and sector exposures. Event driven managers continued to handicap M&A well while global macro strategies were whipsawed by the factor rotation and volatility.

	Month (%)	YTD (%)
Equity Hedge	0.9	8.2
Equity Market Neutral	1.5	-1.1
Event Driven	1.1	5.3
Relative Value Arbitrage	0.3	4.7
Macro	-1.1	5.0