GREYCOURT

Capital Market Flash Report

January 2020 Bullish market performance abruptly shifted on January 24th as fears of the coronavirus went viral. Stocks sold off, bonds rallied, the yield curve flattened, most currencies depreciated against the US dollar, commodity prices took a beating, and volatility spiked. Investors revealed substantial concerns about disruptions to growth and trade while anticipating supportive rate cuts by the Fed. Viral concerns remain elevated, although US recession risk is modest. As a result, the sell off in stocks should prove to be a buying opportunity.

US EQUITY

US stocks relinquished strong month-to-date performance in the aftermath of the coronavirus. Fears of slow growth and recession led broad market index returns to post modest losses for the full month. After the 23rd, large cap stocks fell over 3%, outperforming less-resilient small cap stocks. Sectors with greatest global economic exposure, including energy, materials, and industrials, fell the most. Growth dropped but outperformed value as energy companies were pummeled and financials fell in response to the flattening yield curve.

	Month (%)	YTD (%)
S&P 500	0.0	0.0
Russell 1000	0.1	0.1
Russell 1000 Value	-2.2	-2.2
Russell 1000 Growth	2.2	2.2
Russell 2000	-3.2	-3.2
Russell 2000 Value	-5.4	-5.4
Russell 2000 Growth	-1.1	-1.1

NON-US EQUITY

Negative local currency returns for non-US stocks were exacerbated in US dollar terms by an appreciating US dollar. Despite positive trade news, dovish central banks, Brexit ending, and improving fundamentals, non-US developed stocks were dragged down by the coronavirus. Stocks in China, and countries in EM Asia with the tightest linkages to China, fell over 15% after news of the virus hit. EM economies with substantial commodity exports were also buffeted by sharply falling prices.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	-2.7	-2.7
MSCI EAFE	-2.1	-2.1
MSCI Europe	-2.5	-2.5
MSCI Japan	-1.4	-1.4
MSCI Emerging Markets	-4.7	-4.7
MSCI BRIC Index	-4.4	-4.4

FIXED INCOME

As investors sought safe haven investments with a deflation kicker, long duration Treasuries had a spectacular month and the US yield curve flattened. Credit markets responded favorably to expectations of additional Fed rate cuts as they continue to assess the likely impact of the coronavirus. In the final week of the month, high yield and leveraged loan prices came under pressure as corporate issuance spiked. Municipal bonds had a very good month although struggled to keep pace with the remarkable rally in Treasuries.

	Month (%)	YTD (%)
U.S. Intermediate Treasuries	1.4	1.4
U.S. Long Treasuries	6.8	6.8
U.S. TIPS	2.1	2.1
Corporate IG Bonds	2.2	2.2
High-Yield Bonds	0.0	0.0
Tax-Exempt Bonds	1.8	1.8

CURRENCIES

Concerns about disruption, slower, manufacturing, and a quarantined China led investors to safe haven currencies including the US dollar, yen, and Swiss franc. Although a funding currency, the euro was hurt by growth instability and relative risk perceptions. EM currencies fell especially hard because of linkages to China and commodities. The Russia ruble and South Africa rand, for example, fell 4.3% and 3.9% respectively on the coronavirus news. Expected appreciation to the US dollar for many currencies has been put on hold.

	Month (%)	YTD (%)
US Dollar	1.0	1.0
Euro	-1.1	-1.1
Yen	0.2	0.2
Emerging Markets[1]	-1.1	-1.1

REAL ASSETS

January was a terrible month for most commodities. Energy had its worst month since December 2018 as Brent prices fell almost 9% after the 23rd and MLPs suffered accordingly. Fear of reduced Chinese demand triggered major selloffs in energy and industrial metals prices, with copper falling 7.6% in the last week of the month. Consistent with sharply increasing investor fears, gold prices rose, and falling interest rates helped REITs. Unfortunately, the benefits of future Chinese agricultural buying from the US were also put on hold.

	Month (%)	YTD (%)
Commodities[2]	-7.4	-7.4
Energy	-14.8	-14.8
Industrial Metals	-7.3	-7.3
Gold	4.0	4.0
Master Limited Partnerships[3]	-5.6	-5.6
Real Estate Investment Trusts[4]	1.2	1.2

HEDGE STRATEGIES

Despite positive returns prior to the 23rd, spiking volatility forced many managers to sell global stocks to reduce net leverage. Full month returns were salvaged primarily through net selling of energy and value names. Relative value hedge had a good month as volatility and cross-sectional dispersion increased. Equity market neutral hedge suffered, however, because of poor stock selection and net leverage exposures by European and Asian managers. Macro managers traded short equities, rates and currencies effectively.

	Month (%)	YTD (%)
Equity Hedge	0.0	0.0
Equity Market Neutral	-1.4	--1.4
Event Driven	0.4	0.4
Relative Value Arbitrage	0.7	0.7
Macro	1.0	1.0

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