GREYCOURT

Capital Market Flash Report

March 2020 Much of the global economy ground to a halt as governments shut down commerce and social interaction to slow the spread of COVID-19. Supply chains were severely disrupted, unemployment soared, and consumer confidence plunged. Moreover, oil prices collapsed as Saudi Arabia and Russia engaged in a price war. In response, a new era of coordinated monetary and fiscal stimulus, led by the Federal Reserve, was launched. Nonetheless, uncertainty regarding health and economic policies pummeled stocks and drove yields to new lows.

US EQUITY

As the market's fear index (VIX) spiked to a record 82.69 on March 16th, company analysts rushed to catch up with market pricing by slashing revenue and earnings estimates. Forward earnings for all S&P indices fell at the fastest rates since 2008. Valuations also dropped given the inherent difficulty in judging expected cash flows, risk-free interest rates, and risk premiums. Predictably, hotels, resorts, and cruise lines; oil & gas equipment, services, and drillers; and department stores were hardest hit falling between 40% and 60% for the month.

	Month (%)	YTD (%)
S&P 500	-12.4	-19.6
Russell 1000	-13.2	-20.2
Russell 1000 Value	-17.1	-26.7
Russell 1000 Growth	-9.8	-14.1
Russell 2000	-21.7	-30.6
Russell 2000 Value	-24.7	-35.7
Russell 2000 Growth	-19.1	-25.8

NON-US EQUITY

On a local currency basis, non-US stocks performed in-line with US markets, but underperformed in US dollar terms as the dollar strengthened. Italy and Spain lagged developed markets substantially after experiencing a large number of COVID-19 deaths and the prospect of protracted lockdowns. With viral cases declining and factories resuming production, China stocks fell by only 6.6%. Led by Brazil, Latin American stocks dropped by almost 36%. Oil and commodity-based economies saw their stocks suffer the largest declines.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	-14.4	-23.3
MSCI EAFE	-13.2	-22.7
MSCI Europe	-14.4	-24.2
MSCI Japan	-7.0	-16.6
MSCI Emerging Markets	-15.4	-23.6
MSCI BRIC Index	-14.4	-20.9

FIXED INCOME

With real yields increasing over the first two weeks of the month, the Fed announced on the 15th that it would return to policies used in the Great Financial Crisis to supply US dollars to central banks and shore up liquidity gaps in rates and credit markets. With recession looming, and fearing possible deflation, investors sought out safe haven Treasuries and drove credit spreads—especially for highly levered junk bond issuers—to levels last seen in 2009. Credit default swap spreads also jumped for energy exporting countries.

	Month (%)	YTD (%)
U.S. Intermediate Treasuries	2.1	5.3
U.S. Long Treasuries	6.1	20.9
U.S. TIPS	-1.8	1.7
Corporate IG Bonds	-7.3	-4.1
High-Yield Bonds	-11.5	-12.7
Tax-Exempt Bonds	-3.6	-0.6

CURRENCIES

Recession and deflation fears pushed the US dollar and the Japanese yen higher. The euro fell late in the month as COVID-19 spread through Italy and Spain, causing local European governments to enforce strict lockdowns. EM currencies materially declined as investors weighed the prospects of an economic downturn in riskier nations and therefore less capacity to lower their own interest rates. The Russian ruble depreciated in excess of 18% against the US dollar as Russian and Saudi Arabia drove oil prices down.

	Month (%)	YTD (%)
US Dollar	0.9	2.8
Euro	0.0	-1.6
Yen	0.5	1.0
Emerging Markets[1]	-3.5	-6.0

REAL ASSETS

Oil and energy prices suffered a double whammy when growth and transportation dried up, and Saudi Arabia and Russia engaged in a price war. Industrial metals also fell substantially. Gold prices rose as massive, debt-financed and debt-monetized stimulus was forthcoming. MLPs were undercut when COVID-19 roiled the oil markets and the price of West Texas Intermediate crude fell more than 50% from the start of the year. With in-person commerce and shopping effectively suspended, retail REITS fell over 40%.

	Month (%)	YTD (%)
Commodities[2]	-12.8	-23.3
Energy	-35.1	-51.1
Industrial Metals	-9.7	-18.5
Gold	1.8	4.5
Master Limited Partnerships[3]	-47.2	-57.2
Real Estate Investment Trusts[4]	-21.9	-27.3

HEDGE STRATEGIES

Equity hedge strategies protected capital well on down days and picked up less-than-market returns when prices were rebounding at month end. American funds lagged their peers, experiencing greater losses in their short positions. Crowded trades benefitted long/short strategies generally as a lack of dispersion weighed on market neutral strategies. A slow down in activity and deal-making chaos negatively impacted event-driven strategies. Macro funds experienced smaller losses because of positive Asia Pacific exposure and trading.

	Month (%)	YTD (%)
Equity Hedge	-9.5	-13.3
Equity Market Neutral	-5.9	-7.8
Event Driven	-5.4	-5.4
Relative Value Arbitrage	-6.3	-5.7
Macro	-1.0	-1.3

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