GREYCOURT

Capital Market Flash Report

April 2020 The Great Lockdown vaporized income worldwide, prompting investors to rush the exits in February and March. The Fed and other central banks reacted decisively to the ensuing financial distress as targeted fiscal stimulus was applied to address job losses and forestall spiraling bankruptcies. Sensing progress and opportunity, investors sought out risk assets in April. The future, however, is far from clear given the range of current uncertainties. Buckle up, because emotional reactions and volatility will be with us for some time.

US EQUITY

Investors focused on faster economic recovery as plans to reopen businesses in several states—coupled with monetary and targeted fiscal support—improved optimism about the future of American companies and workers. This change in sentiment is evidenced by the outperformance of small cap over large cap stocks, growth over value, and the massive differential between high beta and low volatility stocks. The VIX also fell materially as cyclical sectors, led by consumer discretionary stocks, outperformed defensive sectors.

	Month (%)	YTD (%)
S&P 500	12.8	-9.3
Russell 1000	13.2	-9.7
Russell 1000 Value	11.2	-18.5
Russell 1000 Growth	14.8	-1.4
Russell 2000	13.7	-21.1
Russell 2000 Value	12.3	-27.7
Russell 2000 Growth	14.9	-14.7

NON-US EQUITY

Non-US stocks performed well, but not as well as US stocks, experiencing similar patterns of return in company preferences and risk taking. Returns were, because the US has stronger capacity to engineer monetary and fiscal support and a higher proportion of major tech companies. ECB action is simply not keeping pace with its rhetoric, and investors see that discrepancy. Emerging markets were helped by the relative performance of Asian countries against the virus and stronger growth prospects, especially in technology.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	7.6	-17.4
MSCI EAFE	6.5	-17.7
MSCI Europe	6.1	-19.6
MSCI Japan	5.4	-12.1
MSCI Emerging Markets	9.2	-16.6
MSCI BRIC Index	7.9	-14.7

FIXED INCOME

Rapid and extensive Fed intervention prevented a financial collapse in rates and credit markets. Fed actions flooded the markets with liquidity, driving short rates low, and crushed any doubts about its resolve to "leave no asset behind." As a result, the curve steepened, and Treasuries posted a strong month. Junk bonds experienced impressive returns as well from frenzied bargain hunting by greedy credit investors. Municipals were the return exception in April given the negative political economy surrounding federal support.

	Month (%)	YTD (%)
U.S. Intermediate Treasuries	0.3	5.5
U.S. Long Treasuries	2.0	23.4
U.S. TIPS	2.8	4.5
Corporate IG Bonds	5.0	0.7
High-Yield Bonds	4.5	-8.8
Tax-Exempt Bonds	-1.3	-1.9

CURRENCIES

The US dollar ended flat for the month. Despite progress in the rate of new Covid-19 cases, and aggressive Fed easing, structural impediments to mutualization weighed on the euro. The yen, however, benefitted from its continuing perception as a safe haven currency in a period of remarkable uncertainty. Emerging currencies also rose against the US dollar given the relative economic performance of China and surrounding countries. Easier access to US dollars also helped reduce pressure on the US dollar providing EM support.

	Month (%)	YTD (%)
US Dollar	0.0	2.7
Euro	-0.7	-2.3
Yen	0.3	1.3
Emerging Markets[1]	0.6	-5.4

REAL ASSETS

Commodity prices continued to fall, expressing a far less optimistic prospective view than equity markets. Despite a good month for natural gas, the glut of oil in a world of lockdown drove energy prices lower. Strength in copper and nickel offset a significant loss in lead and aluminum. After months of being out of favor, MLPs were prized as a deeply discounted trade for a risk-on market. REITs benefitted from promised fiscal support for small and medium enterprises. Gold continued to trade up on fears of currency debasement.

	Month (%)	YTD (%)
Commodities[2]	-1.5	-24.5
Energy	-3.5	-52.8
Industrial Metals	2.3	-16.6
Gold	6.1	10.9
Master Limited Partnerships[3]	49.6	-35.9
Real Estate Investment Trusts[4]	8.3	-21.3

HEDGE STRATEGIES

Price reversion helped directional equity managers, especially US quantitative managers, even as crowded short positions in North America and Europe lowered returns and will continue to do so if markets rise and net leverage stays low. Managers nonetheless exploited style and capitalization differences to generate excellent monthly returns. Market neutral managers fell on poor shorting selection. Event driven managers took advantage of health care deals despite falling M&A volume. Relative value and macro took advantage of wide spreads.

	Month (%)	YTD (%)
Equity Hedge	3.8	-10.1
Equity Market Neutral	-1.0	-8.7
Event Driven	2.3	-3.3
Relative Value Arbitrage	2.6	-3.0
Macro	0.7	-0.5

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 two-day lag. For complete Index Descriptions, see http://www.greycourt.com/indices.html