GREYCOURT

# Capital Market Flash Report

**May 2020** Stock prices soared in May, despite depression-level projections for growth and consumer spending. Why? Policy makers heeded the shout of everyman investor Rod Tidwell to "show me the money!" Liquidity, Loans, Cash Money. Meltdown to Exuberance in ten weeks. The stock market believes that the Fed's promise to deliver whatever liquidity and loans is necessary—coupled with the federal government's lining consumers' pockets with ample cash money—will lead to spending, jobs, profits, growth, and prosperity.

## US EQUITY

Showing confidence in an economic rebound, investors sold bonds to purchase risker stocks. Since the market bottom on March 23, the S&P 500 has gained 36% and is down only 10% from its high on February 19. Confirming the risk-on nature of this rally, smaller cap indices with lower quality companies tended to outpace their higher-quality peers as well as larger indices. Growth dominated value, led by tech stocks, as cyclical sectors had higher returns than defensive sectors. Predictably, high beta and momentum factors performed best.

| | Month (%) | YTD (%) |
|---|---|---|
| S&P 500 | 4.8 | -5.0 |
| Russell 1000 | 5.3 | -4.9 |
| Russell 1000 Value | 3.4 | -15.7 |
| Russell 1000 Growth | 6.7 | 5.2 |
| Russell 2000 | 6.5 | -15.9 |
| Russell 2000 Value | 2.9 | -25.6 |
| Russell 2000 Growth | 9.4 | -6.6 |

## NON-US EQUITY

Non-US stocks keyed in on Merkel and Macron's committing to modest fiscal transfers to support the countries hardest hit by COVID-19. EAFE stocks responded with appreciation, led by technology and smaller companies, albeit with a decided preference for higher quality. In emerging markets, there was an increasing awareness that China and the US are in a new cold war. EM Eastern Europe and EM Latin America stocks rebounded significantly from deep drawdowns as China and Taiwan's underperformance limited total index returns.

| | Month (%) | YTD (%) |
|---|---|---|
| MSCI All-Country World ex-US | 3.3 | -14.7 |
| MSCI EAFE | 4.4 | -14.0 |
| MSCI Europe | 4.7 | -15.9 |
| MSCI Japan | 5.9 | -6.9 |
| MSCI Emerging Markets | 0.8 | -15.9 |
| MSCI BRIC Index | 0.5 | -14.2 |

## FIXED INCOME

Fixed income investors switched out of rates and rates duration into credit, driven in part by a grudging acceptance that near-term economic prospects do not favor a long-term depression. High yield bonds and loans rebounded most, and municipals had a very strong month when investors realized many states would be able to cover shortfalls with state reserves and CARES act monies. State deficits and credits remain highly problematic. Municipal investors correctly remain cautious as BBB spreads are at their widest since 2013.

| | Month (%) | YTD (%) |
|---|---|---|
| U.S. Intermediate Treasuries | 0.2 | 5.7 |
| U.S. Long Treasuries | -1.9 | 21.0 |
| U.S. TIPS | 0.3 | 4.8 |
| Corporate IG Bonds | 1.5 | 2.2 |
| High-Yield Bonds | 4.4 | -4.7 |
| Tax-Exempt Bonds | 3.2 | 1.2 |

## CURRENCIES

Less fear-and-flee sentiment allowed the US dollar and the yen, both deemed safe haven currencies, to ease off in May. Sentiment for the euro reversed when the EC president announced a 750 billion euro fund to support coronavirus recovery efforts. In the absence of coordinated monetary and fiscal policy, the long-term outlook for the EU would be challenging. Emerging markets currencies were dragged down by China's announcing a sweeping national security law for Hong Kong. US-China frictions intensified as a result.

| | Month (%) | YTD (%) |
|---|---|---|
| US Dollar | -0.7 | 2.0 |
| Euro | 1.3 | -1.0 |
| Yen | -0.6 | 0.8 |
| Emerging Markets[1] | -0.2 | -5.6 |

## REAL ASSETS

With the exception of agricultural markets trapped in the middle of significant US-China geopolitical conflict, cyclical and defensive commodity prices enjoyed large increases. Energy and MLPs jumped on the price of WTI rebounding. Industrial metals increased in line with renewed manufacturing activity. Gold continued its strong run as investors consider the risks associated with massive monetary stimulus, significant debt and deficits, and the prospects for broad currency debasement.

| | Month (%) | YTD (%) |
|---|---|---|
| Commodities[2] | 4.3 | -21.2 |
| Energy | 11.4 | -47.4 |
| Industrial Metals | 2.8 | -14.3 |
| Gold | 2.7 | 13.9 |
| Master Limited Partnerships[3] | 9.0 | -30.2 |
| Real Estate Investment Trusts[4] | 0.2 | -21.1 |

## HEDGE STRATEGIES

Directional equity strategies performed well but left much on the table as managers failed to rotate quickly into cyclical names and exposures. Large spreads between North American and European net exposures also hampered upside performance. Significant trade crowding remains a concern. M&A activity was solid and contributed to excellent performance for event driven strategies. Macro strategies eked out positive returns despite long China positions impacting total portfolio returns.

| | Month (%) | YTD (%) |
|---|---|---|
| Equity Hedge | 1.3 | -8.3 |
| Equity Market Neutral | 2.3 | -6.6 |
| Event Driven | 2.0 | -1.0 |
| Relative Value Arbitrage | 2.0 | -0.7 |
| Macro | 0.2 | -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 one-day lag. For complete Index Descriptions, see http://www.greycourt.com/indices.html