G R E Y C O U R T

Capital Market Flash Report

June 2020 Another great month for stocks, credit, and gold as markets bet heavily on the central banks. Progress reducing Covid-19 outbreaks also helped boost stock prices, especially in Europe. The real action, however, stemmed from the dawning realization that central banks will flood the world with liquidity, repress nominal and real sovereign and corporate yields across maturities, and flatten risk premiums until policy makers secure the economic growth and inflation they desperately seek. In a nutshell: growth, reflation, or bust!

US EQUITY

US stock returns were roiled by volatile episodes as investors' recovery hopes were whipsawed by contradictory economic and health data. Stocks finished strong on confidence in the Fed's conviction and power. As a result, microcap stocks dominated small cap stocks which outperformed large stocks. Predictably, growth stocks outperformed value stocks, and cyclical sectors crushed defensive sectors by 400 basis points. Stocks with high beta, growth, and momentum factor exposures outpaced lower volatility stocks.

	Month (%)	YTD (%)
S&P 500	2.0	-3.1
Russell 1000	2.2	-2.8
Russell 1000 Value	-0.7	-16.3
Russell 1000 Growth	4.4	9.8
Russell 2000	3.5	-13.0
Russell 2000 Value	2.9	-23.5
Russell 2000 Growth	3.8	-3.1

NON-US EQUITY

Non-US stocks materially outpaced US stocks in local currencies and more so as a weaker US dollar improved USD returns. Investors bought stocks in reopening economies and previously hard hit markets. China, EM Asia, EM, EM Latin America, and Europe led the way. Small stocks outperformed large caps in emerging markets but not in non-US developed markets where large caps had much higher positive returns than small caps. Currency benefits were primarily focused on non-BRIC emerging countries and the euro.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	4.6	-10.8
MSCI EAFE	3.4	-11.1
MSCI Europe	4.1	-12.4
MSCI Japan	0.0	-6.9
MSCI Emerging Markets	7.4	-9.7
MSCI BRIC Index	7.9	-7.5

FIXED INCOME

Rates and credit markets benefitted from the belief that the Fed and other central banks will flood the world with liquidity, suppress rates, control yield curves, and lower risk premiums until there is growth and inflation. Rates experienced modest positive returns. Credits did much better with global high yield providing more than double the return of US high yield only. TIPs responded to potential reflation. Municipal bonds had an excellent month as yields on Treasuries fell and investors worried about higher taxes.

	Month (%)	YTD (%)
U.S. Intermediate Treasuries	0.1	5.8
U.S. Long Treasuries	0.1	21.2
U.S. TIPS	1.1	6.0
Corporate IG Bonds	1.9	4.2
High-Yield Bonds	1.0	-3.8
Tax-Exempt Bonds	0.8	2.1

CURRENCIES

The US dollar traded down on expectations of accelerating global economic recovery, consistent with typical recession and recovery trades. The pace and path of growth, and the magnitude of uncertain interest differentials, will drive future changes in US dollar exchange rates. Positive reopening news in Europe and Asia helped push the Euro higher. Similar news drove emerging market currencies. With increased risk taking, the safe-haven yen was down. The great unknown currently holding currency markets is the US election.

	Month (%)	YTD (%)
US Dollar	-1.0	1.0
Euro	1.2	0.2
Yen	-0.1	0.7
Emerging Markets[1]	1.2	-4.5

REAL ASSETS

Commodity prices rose significantly during the month, led by industrial metals reacting to improved PMIs, reopening economies, and an expected surge in economic growth. Likewise energy prices rebounded as individual and commercial fuel usage continued to increase. Fears of low real yields and the dreaded combination of high debt, deficits, and currency debasement, pushed gold to within $100 of its all-time high. REITs rose on lower rates and expected growth, even as MLPs remained out of favor.

	Month (%)	YTD (%)
Commodities[2]	2.3	-19.4
Energy	2.2	-46.3
Industrial Metals	6.9	-8.4
Gold	2.8	17.1
Master Limited Partnerships[3]	-7.9	-35.7
Real Estate Investment Trusts[4]	3.1	-18.7

HEDGE STRATEGIES

Successfully de-risking and re-risking portfolios throughout the month helped directional equity managers take advantage of cyclical sectors and momentum factors. Increasing dispersion allowed equity neutral managers to generate alpha in both long and short positions, while periods of volatility gave a boost to relative value arbitrage managers. Macro managers tended to be the exception in hedge strategies as many funds lost money by mis-timing sales of Asian cyclicals and industrials and poor currency trading.

	Month (%)	YTD (%)
Equity Hedge	1.9	-6.6
Equity Market Neutral	2.1	-4.9
Event Driven	2.6	1.5
Relative Value Arbitrage	1.7	1.0
Macro	-0.3	-0.8

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