GREYCOURT

Capital Market Flash Report

September 2020 As markets focus on the pandemic, coordinated monetary and fiscal policy, the dynamics of health and economic policies, and elections, changing demand for goods and services is creating significant performance differences across economies, markets, sectors, and companies. While many anticipate slowing growth, we see strong growth in payrolls and pending home sales with the distinct possibility of a V-recovery. We're not loading up, but divergent views and disagreement make markets, and there is much disagreement.

US EQUITY

After a fierce correction early in the month and turbulent trading thereafter, US stocks fell in September. A material drop in large cap technology stocks led large value to outperform large growth, recently a rare occurrence. Outside of technology, small cap and growth stocks continued to beat larger and value stocks. Investors preferred lower beta and lower volatility stocks with positive price momentum. There was significant dispersion in sectors as energy continued a double-digit decline on falling natural gas and oil prices.

	Month (%)	YTD (%)
S&P 500	-3.8	5.6
Russell 1000	-3.7	6.4
Russell 1000 Value	-2.5	-11.6
Russell 1000 Growth	-4.7	24.3
Russell 2000	-3.3	-8.7
Russell 2000 Value	-4.7	-21.5
Russell 2000 Growth	-2.1	3.9

NON-US EQUITY

On a local currency basis, developed and emerging non-US stocks fell, but significantly less than US stocks. After adjusting for the strong US dollar, non-US stock returns were still better. In local currencies, small cap and growth stocks posted positive absolute returns, outperforming larger and value stocks. Bargain hunters pursued stocks in Europe while Japanese investors reacted to a new round of stock purchases under PM Yoshihide Suga. Korea and Taiwan led emerging stocks but were offset by EM Europe and Latin America.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	-2.4	-5.1
MSCI EAFE	-2.6	-6.7
MSCI Europe	-3.3	-8.4
MSCI Japan	1.1	-0.3
MSCI Emerging Markets	-1.6	-0.9
MSCI BRIC Index	-2.9	2.2

FIXED INCOME

US Treasury returns were modestly positive despite stock market concerns, as near-zero yields limit the attractiveness of Treasuries during turbulent periods. Non-US sovereign bonds also experienced a similar lack of interest. Comments by the Fed reinforced investor fears of a slower recovery, dampening inflation concerns and TIPS performance. The outlook pressured investment grade credits and high yield bonds. Municipal bonds held steady and protected year-to-date gains as tax revenues have proven higher than expected.

	Month (%)	YTD (%)
U.S. Intermediate Treasuries	0.1	6.0
U.S. Long Treasuries	0.4	21.3
U.S. TIPS	-0.4	9.2
Corporate IG Bonds	-0.3	5.6
High-Yield Bonds	-1.0	0.6
Tax-Exempt Bonds	0.0	3.3

CURRENCIES

With concerns about COVID-19 slowdowns and falling stock markets, investors bought US dollars for safety. Interestingly, other safe-haven currencies such as the yen and Swiss franc benefitted from the market volatility, but not as much as in prior periods. The rise in the US dollar had a predictably negative effect on the euro, especially with service sector PMIs falling and resurging viral outbreaks. Better growth in Asia helped EM currencies while the Canadian dollar traded in sympathy with falling oil process.

	Month (%)	YTD (%)
US Dollar	1.9	-2.6
Euro	-1.8	4.5
Yen	0.4	3.0
Emerging Markets[1]	0.4	-1.9
Canadian Dollar	-2.0	-2.5

REAL ASSETS

Commodities headed south led by falling energy prices. Natural gas, Brent crude, and WTI crude prices all fell. Likewise, slowing growth expectations and election outcome uncertainty in the US hurt demand for industrial metals. Precious metals, including gold and platinum, dropped as the US dollar strengthened. MLPs fell in tandem with energy prices. Cuts to analysts' earnings estimates depressed REIT process, already lowered by hotel and retail REITs. Only specialized REITs such as cell towers posted positive returns.

	Month (%)	YTD (%)
Commodities[2]	-3.4	-12.1
Energy	-9.6	-44.0
Industrial Metals	-2.8	1.8
Gold	-4.2	21.4
Master Limited Partnerships[3]	-13.6	-46.2
Real Estate Investment Trusts[4]	-3.3	-17.5

HEDGE STRATEGIES

Directional equity managers struggled throughout the month to overcome high relative exposures to tech, growth, and momentum early in September. Likewise, extensive exposure to crowded trades and high net and gross exposures created headwinds. Despite choppy markets, managers repositioned and delivered strong returns to finish flat against the S&P 500 that was down 3.8%. Event-driven managers took advantage of NVIDIA's $40 billion acquisition of chipmaker Arm. Macro strategies felt the burn of stocks, energy, and the euro.

	Month (%)	YTD (%)
Equity Hedge	0.0	-3.0
Equity Market Neutral	-0.4	-6.5
Event Driven	0.4	4.6
Relative Value Arbitrage	-0.2	4.1
Macro	-1.3	0.0

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