GREYCOURT

Capital Market Flash Report

November 2020 Markets were greeted on three consecutive Mondays by separate announcements of ready-to-go vaccines. Economic news revealed growth and strong consumer spending, while fiscal and monetary policy makers continued to coordinate efforts to expand global liquidity. Throw in hope for a smooth electoral transition with legislative gridlock, and the markets launched. The secular bull is running hard, even as investor sentiment swells and a long list of political and economic worries set the stage for significant corrections.

US EQUITY

Investors pivoted from October's caution as market indices surged to record highs. The smallest stocks posted returns nearly double the largest. Value outperformed growth in every size category and cyclical sectors outpaced defensive sectors. Energy stocks, hardest hit in the pandemic, returned almost 30%. Predictably, exposure to higher beta and enhanced value factors dominated low volatility. Fundamental stock selection drove sector dispersion wider, while the VIX, an indicator of investor fear and uncertainly, plunged by almost 20%.

	Month (%)	YTD (%)
S&P 500	10.9	14.0
Russell 1000	11.8	16.1
Russell 1000 Value	13.5	-1.0
Russell 1000 Growth	10.2	32.4
Russell 2000	18.4	10.4
Russell 2000 Value	19.3	-3.0
Russell 2000 Growth	17.6	23.1

NON-US EQUITY

Despite increasing lockdown risks in Europe, local currency returns exceeded those in the US in what was the best month for European stocks since 1986. On a US dollar basis, returns were higher. Across non-US markets, the same performance patterns held as in the US, demonstrating the global response to vaccines and policy support for growth and markets. Every country in MSCI's non-US indices posted positive absolute returns. Eastern Europe and Latin America had exceptional returns, leading Emerging Europe, Africa, and Asia.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	13.5	5.4
MSCI EAFE	15.5	3.5
MSCI Europe	17.0	1.2
MSCI Japan	12.5	10.3
MSCI Emerging Markets	9.3	10.5
MSCI BRIC Index	6.0	12.0

FIXED INCOME

Rates investors apparently did not share the same warm glow as their stock buying counterparts. Longer-duration Treasury yields fell, helped by consistent Fed yield curve management, leading to impressive returns. Credit investors, focusing on vaccines, growth, reduced election uncertainty, and cross-market volatility at all time lows, scooped up junk bonds. Triple-C rated bonds had their best month in almost four years. Municipal markets responded to economic recovery and expectations of aid from the incoming administration.

	Month (%)	YTD (%)
U.S. Intermediate Treasuries	0.1	5.7
U.S. Long Treasuries	1.2	19.1
U.S. TIPS	1.1	9.7
Corporate IG Bonds	2.7	8.3
High-Yield Bonds	4.0	5.1
Tax-Exempt Bonds	1.5	4.6

CURRENCIES

The US dollar had its worst month since July, hitting its lowest level in two years. A stronger growth outlook and increases in world, non-gold international reserves place downward pressure on the US dollar. Investors responded to positive economic data and expectations of continued rates suppression by the Fed by purchasing currencies hardest hit by the coronavirus. After a sizeable post-election jump, the Chinese renminbi continued to rally against the US dollar, reaching a six-month high by the end of the month.

	Month (%)	YTD (%)
US Dollar	-2.3	-4.7
Euro	2.4	6.4
Yen	0.3	4.1
Emerging Markets[1]	2.2	1.6
Canadian Dollar	2.4	-0.1

REAL ASSETS

Led by a weaker US dollar that makes commodity prices cheaper for non-US buyers, industrial metals, agriculture, and energy drove commodity prices up. Copper hit a seven-year high as Brent Crude and WTI each jumped nearly 25%. Gold prices fell as growth increased and volatility collapsed. MLP prices rebounded on anticipated expansions in infrastructure spending and improved demand and economics for midstream energy. REITs performed well as investors poured into previously battered office and retail REITs.

	Month (%)	YTD (%)
Commodities[2]	3.5	-7.7
Energy	3.5	-42.3
Industrial Metals	10.5	16.0
Gold	-5.6	13.7
Master Limited Partnerships[3]	23.8	-30.4
Real Estate Investment Trusts[4]	10.8	-10.6

HEDGE STRATEGIES

Equity hedge managers rode the global stock market rally, increasing leverage and net exposures, rotating into cyclical sectors, and focusing on depressed banks, hotels, and travel-related names. Increased sector dispersion within and across stock markets benefited market neutral and relative value arbitrage strategies. Event driven strategies capitalized on major M&A transactions including S&P Global's $44 billion purchase of IHS Markit. Global macro managers exploited consistent trends in stock, commodity, and currency markets.

	Month (%)	YTD (%)
Equity Hedge	4.8	1.1
Equity Market Neutral	2.2	-4.3
Event Driven	2.4	6.9
Relative Value Arbitrage	2.3	6.9
Macro	2.1	1.6

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]MSCI US 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