GREYCOURT

Capital Market Flash Report

December 2020 Markets responded favorably to the vaccine rollout, constructive housing-related and broad-based capital spending, expectations of continuing fiscal stimulus, and confirmations by the Fed, ECB, and BoJ that each will suppress rates and supply liquidity until the pandemic is over and actual inflation is an issue. Style returns across stock markets revealed significant differences in how inflation risks are being discounted. The pacing of economic inflation, therefore, will materially impact prospective regional and sectoral stock returns.

US EQUITY

Investors expressed conviction in a strong economic recovery characterized by persistent low interest rates and inflation. Microcap returns exceeded 10% as smaller stocks outperformed larger stocks in every size classification. The same pattern of outperformance held for growth stocks over value stocks with cyclical sectors outpacing defensive sectors by over 160 basis points. Predictably, high beta stocks trounced lower volatility ones. Energy stocks had another good month following a 6.6% increase in WTI crude oil prices.

	Month (%)	YTD (%)
S&P 500	3.8	18.4
Russell 1000	4.2	21.0
Russell 1000 Value	3.8	2.8
Russell 1000 Growth	4.6	38.5
Russell 2000	8.7	20.0
Russell 2000 Value	7.9	4.6
Russell 2000 Growth	9.3	34.6

NON-US EQUITY

Non-US stocks performed in-line with US markets on a local currency basis, masking the significant outperformance of emerging over non-US developed markets. The falling US dollar kicked in and boosted returns to US dollar investors. Size patterns were consistent with those in US markets. Value dominated growth in emerging markets as investors discounted higher inflation risks. Styles were comparable in developed markets given fears of renewed lockdowns leading to a technical recession in the eurozone.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	5.4	11.1
MSCI EAFE	4.7	8.3
MSCI Europe	4.7	5.9
MSCI Japan	4.1	14.9
MSCI Emerging Markets	7.4	18.7
MSCI BRIC Index	5.2	17.9

FIXED INCOME

Rates investors priced in expectations of growth, inflation, and an oncoming onslaught of US Treasury issuance in 2021 and inadequate demand at current levels. Fears of a curve blowout are overdone as rates are reflecting higher growth and inflation risks. And relative to non-US rates markets, US yields are higher. Credit investors sought yield in junk bonds as issuance has driven investment-grade yield spreads to unbearably low levels. Municipal markets remained flat awaiting significant new issuance early in 2021.

	Month (%)	YTD (%)
U.S. Intermediate Treasuries	0.0	5.8
U.S. Long Treasuries	-1.2	17.7
U.S. TIPS	1.1	11.0
Corporate IG Bonds	0.4	8.7
High-Yield Bonds	1.9	7.1
Tax-Exempt Bonds	0.6	5.2

CURRENCIES

The US dollar continued its fall from last month based on expectations of global growth recovery, a Fed committed to suppressing rates, and relative investment valuations elsewhere that lead risk-taking investors to sell their US dollars. The euro and yen advanced, as did the pound after the Brexit trade deal was approved. The Canadian dollar rose on better oil prices and emerging currencies had another good month based on the performance of the BRIC and EM Europe currencies.

	Month (%)	YTD (%)
US Dollar	-2.1	-6.7
Euro	2.4	8.9
Yen	1.0	5.1
Emerging Markets[1]	1.6	3.3
Canadian Dollar	2.2	2.0

REAL ASSETS

Commodity returns were driven by agricultural and precious metals prices. Oil prices rose, although natural gas continued to suffer from oversupply. Copper prices increased almost 25% in 2020, based in part on worldwide green stimulus programs that require copper. Gold rebounded on negative real yields and concerns that a blue-sweep in Georgia would lead to an explosion in US debt and US dollar debasement. All REIT sectors increased based on expectations that effective vaccines will rejuvenate retail and other property types.

	Month (%)	YTD (%)
Commodities[2]	5.0	-3.1
Energy	-0.7	-42.7
Industrial Metals	0.3	16.3
Gold	6.4	20.9
Master Limited Partnerships[3]	2.5	-28.7
Real Estate Investment Trusts[4]	3.3	-7.6

HEDGE STRATEGIES

Equity long/short managers tended to track regional stock indices with emerging markets managers performing the best on an absolute and relative basis. Crowded long and short trades added value, amplified by relatively high gross and net leverage. Event-driven strategies capitalized on increased deal flow at year end and acquirers willing to pay up for growth. Significant spread differentials were captured by relative value managers while global macro managers exploited consistent trends across markets.

	Month (%)	YTD (%)
Equity Hedge	3.2	4.2
Equity Market Neutral	0.3	-3.9
Event Driven	2.0	8.7
Relative Value Arbitrage	1.1	8.1
Macro	2.9	4.2

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