GREYCOURT

Capital Market Flash Report

January 2021 The Blue Wave reset asset performance, Chairman Powell prioritized maximum employment over price stability, and Treasury Secretary Yellen declared economic policy a potent tool to “address inequality, racism, and climate change.” Despite viral mutations and slow rollouts, the markets heard these messages loud and clear. With excess liquidity, fiscal stimulus, and technology spawning SPACs, greater margin debt, outsized option trading, and flash-mob short-squeezes, GameStop signals *Game On* for liquidity risks and volatility.

US EQUITY

Strong gains after the Democrat’s election sweep in Georgia, boosted by the aggressive comments of Powell and Yellen, were reduced in the last week of the month by coronavirus fears that prompted a sharp sell-off. Micro-cap stocks led all categories as smaller stocks outperformed larger ones across the board. Defensive sectors outperformed cyclical sectors given significant rallies in energy and health care stocks. Energy continued to benefit from supply restrictions pushing up oil prices. GameStop dominated small cap performance.

	Month (%)	YTD (%)
S&P 500	-1.0	-1.0
Russell 1000	-0.8	-0.8
Russell 1000 Value	-0.9	-0.9
Russell 1000 Growth	-0.7	-0.7
Russell 2000	5.0	5.0
Russell 2000 Value	5.3	5.3
Russell 2000 Growth	4.8	4.8

NON-US EQUITY

The BRICs and Emerging Markets led non-US stocks as China, Asia ex-China, and EMEA stocks more than offset the poor performance in Latin America. The stronger US dollar lowered dollar returns for US investors. Gains in Europe were erased on the last day of trading because of extended virus lockdowns and vaccine delivery delays. Unlike the pattern in non-US developed stock markets, EM large cap stocks outperformed small cap stocks, and the growth factor significantly outpaced the performance of the value factor.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	0.2	0.2
MSCI EAFE	-1.1	-1.1
MSCI Europe	-1.4	-1.4
MSCI Japan	-1.0	-1.0
MSCI Emerging Markets	3.1	3.1
MSCI BRIC Index	3.8	3.8

FIXED INCOME

US Treasury investors shifted their focus in January to expected fiscal policy actions and the likely effects on growth and reflation. As a result, Treasury yields increased, and the yield curve steepened. With interest rates at historically low levels, corporate issuers and PE groups came to market in droves pressuring yields. High-yield debt managed to eek out a small gain on extended growth and positive repayment scenarios. Municipal investors focused on the likelihood of new stimulus to bail out the least well-off municipal issuers.

	Month (%)	YTD (%)
U.S. Intermediate Treasuries	-0.2	-0.2
U.S. Long Treasuries	-3.6	-3.6
U.S. TIPS	0.3	0.3
Corporate IG Bonds	-1.3	-1.3
High-Yield Bonds	0.3	0.3
Tax-Exempt Bonds	0.6	0.6

CURRENCIES

The US dollar strengthened on a month-to-month basis for the first time since October. After dipping before the Georgia election, investor confidence in fiscally funded economic growth and faster inflation versus other developed economies helped push the dollar up. Other international currencies fell against the dollar given severe lockdowns in Europe, vaccination delays, and fears of mutation spillovers. Emerging currencies in aggregate experienced similar losses with the notable exception of the Chinese renminbi.

	Month (%)	YTD (%)
US Dollar	0.7	0.7
Euro	-0.7	-0.7
Yen	-1.3	-1.3
Emerging Markets[1]	-0.1	-0.1
Canadian Dollar	-0.3	-0.3

REAL ASSETS

Energy and agriculture drove commodity prices higher, helped by Saudi Arabia’s supply cuts and executive orders impacting fossil fuel production in the US. Excluding zinc, industrial metals prices, including copper and nickel, rose on recovery and electric vehicle demand expectations. Gold fell, because higher real interest rates increased position carry costs. Infrastructure and midstream energy MLPs benefitted from expected stimulus and higher energy prices. Diversified and Office properties reduced strong Retail REIT returns.

	Month (%)	YTD (%)
Commodities[2]	2.6	2.6
Energy	5.5	5.5
Industrial Metals	0.0	0.0
Gold	-2.6	-2.6
Master Limited Partnerships[3]	5.8	5.8
Real Estate Investment Trusts[4]	0.2	0.2

HEDGE STRATEGIES

Directional equity strategies had positive returns until the last week of the month. Reactions to short squeezes by retail investors in GameStop and other stocks raised concerns across portfolios with significant short positions. Managers reduced gross exposures quickly as a defensive tactic. De-grossing levels were comparable to the peak of the COVID market crisis. Volatility spiked in tandem with realized position losses. Event strategies took advantage of strong M&A activity associated with SPACs.

	Month (%)	YTD (%)
Equity Hedge	-1.1	-1.1
Equity Market Neutral	0.7	0.7
Event Driven	0.7	0.7
Relative Value Arbitrage	0.4	0.4
Macro	-0.3	-0.3

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