GREYCOURT

Capital Market Flash Report

February 2021 Responding to the likely passage of the American Rescue Plan, massive increases in fiscal and monetary stimulus, and fading virus concerns, bond markets threw an inflation tantrum at month end. Bond vigilantes drove yields higher and the stock market took note, falling substantially from mid-month highs. Given the state of the economy and central bank resolve, rising rates won't meaningfully limit economic recovery. Conditions for bonds , however, are bad and an impediment to stocks and long-duration assets.

US EQUITY

Despite a material sell-off in the last week of the month, US stocks posted excellent returns in February. The trend in rank-ordering of returns by size continued with microcap stocks rising nearly 15%. Value handily outperformed growth as pricey tech stocks bore the brunt of rising bond yields. Financials contributed most to index returns as a steepening curve sets the stage for profitable lending spreads. Energy stocks ran up on increasing oil and natural gas prices while cyclicals rode expectations of economic growth.

	Month (%)	YTD (%)
S&P 500	2.8	1.7
Russell 1000	2.9	2.1
Russell 1000 Value	6.0	5.1
Russell 1000 Growth	0.0	-0.8
Russell 2000	6.2	11.6
Russell 2000 Value	9.4	15.2
Russell 2000 Growth	3.3	8.3

NON-US EQUITY

With the exception of Japan, the modestly rising US dollar at month end did not significantly affect local currency returns. Similar to US markets, smaller, value, and cyclical stocks tended to outperform. European stocks increased in value over the month as investors believed an end to lockdowns is near. Rising rates in the US did ripple through global markets, impacting the emerging markets most. China shares fell on steady rates and potential rate hikes, while Brazil floundered amidst a populist fight featuring Petrobas and high gas prices.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	2.0	2.2
MSCI EAFE	2.3	1.2
MSCI Europe	2.5	1.0
MSCI Japan	1.5	0.5
MSCI Emerging Markets	0.8	3.9
MSCI BRIC Index	-0.3	3.5

FIXED INCOME

Bond yields surged at month end with the 10-year Treasury closing at 1.44%, just under its highest level since the global pandemic started. Fears of spiking inflation led investors to sell, and vigilantes to short, bonds in an inflation tantrum. Long-duration bonds suffered most. Credits declined with the exception of leveraged loans and high yield bonds, both of which benefitted from expected growth and associated lower risks of default. Tax-exempt bonds were hit by rates even as a "Municipal" Rescue Plan neared passage.

	Month (%)	YTD (%)
U.S. Intermediate Treasuries	-0.8	-1.1
U.S. Long Treasuries	-5.6	-9.0
U.S. TIPS	-1.6	-1.3
Corporate IG Bonds	-1.8	-3.1
High-Yield Bonds	0.4	0.7
Tax-Exempt Bonds	-1.6	-1.0

CURRENCIES

The US dollar was down for the entire month until a modest increase in the last two days. The size of stimulus coupled with accelerated relative growth and rising longer rates indicated higher risks of inflation and policy instability. Repricing policy risks undercut sentiment and higher-beta currencies. The Pound soared on the potential of a strong post-BREXT recovery. Commodity currencies, including the Canadian dollar, tended to benefit from increasing energy prices and growing global demand for industrial materials.

	Month (%)	YTD (%)
US Dollar	0.3	1.0
Euro	-0.5	-1.2
Yen	-1.7	-3.0
Emerging Markets[1]	-0.1	-0.2
Canadian Dollar	0.3	0.0

REAL ASSETS

With Saudi and Russian oil supply cuts, a polar vortex in the United States pushing energy prices higher, and shipping container shortages, real assets continued their meteoric rise. Forecasted increases in demand for electric vehicles and green energy technologies combined with a global shortage in microprocessors drove industrial metal prices higher. Expectations of increasing real rates caused gold to trade off. MLPs jumped on higher energy prices and demand growth. REITs performed well despite a sharp sell-off at month end.

	Month (%)	YTD (%)
Commodities[2]	6.5	9.3
Energy	15.4	21.7
Industrial Metals	10.1	10.2
Gold	-6.6	-9.0
Master Limited Partnerships[3]	7.8	14.1
Real Estate Investment Trusts[4]	4.0	4.2

HEDGE STRATEGIES

Directional equity managers gave back a significant amount of strong performance in the last few days of the month. Overall net exposures to size, value, cyclicals, energy, and financials were additive to performance, as managers rode the key trends. Crowded trades and exposure to momentum reduced returns. Event driven strategies capitalized on M&A activity and the significant market impact of SPACs. Relative value strategies had a steady month in rates-credit spreads. Global macro managers exploited commodity price moves.

	Month (%)	YTD (%)
Equity Hedge	3.1	2.0
Equity Market Neutral	0.1	1.1
Event Driven	1.6	2.2
Relative Value Arbitrage	0.5	0.8
Macro	2.3	1.7

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