GREYCOURT

Capital Market Flash Report

March 2021 Three related but different regional stories are playing out as we write. China is back to secular trends in growth and taken policy steps that sparked a material stock market correction. The US is growing well above trend pushing nominal interest rates higher. Monetary policy, however, remains easy as stimulus keeps pouring out of Washington, and stock investors are loving it. Europe's economic recovery and health outcomes are lagging, and it shows. Rates up and gold off confirm optimism regarding global growth.

US EQUITY

Enthusiasm for all things *infrastructure* drove performance in utilities, industrials, and materials, while direct stimulus payments pushed consumer confidence to its highest level since the pandemic started. Surging steel prices, strong PMI data, and resuming dividend payouts bolstered demand for value stocks. With accelerating economic activity, analysts are quickly raising earnings estimates. Importantly, markets are lowing forward P/E multiples indicating an awareness of a future return to sustainable longer-term trends.

	Month (%)	YTD (%)
S&P 500	4.4	6.2
Russell 1000	3.8	5.9
Russell 1000 Value	5.9	11.3
Russell 1000 Growth	1.7	0.9
Russell 2000	1.0	12.7
Russell 2000 Value	5.2	21.2
Russell 2000 Growth	-3.1	4.9

NON-US EQUITY

Local-currency investors pushed non-US developed stocks higher, consistent with returns achieved in the US. Problems including botched vaccine rollouts and additional lockdowns weakened local currencies and substantially reduced returns for US dollar investors. China and Asia led emerging stocks lower in part because of the blockage in the Suez Canal that disrupted shipping and international supply chains. Similar patterns for US value and larger stock outperformance held for non-US stocks, with the exception of emerging large cap.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	1.3	3.6
MSCI EAFE	2.4	3.6
MSCI Europe	3.2	4.2
MSCI Japan	1.2	1.7
MSCI Emerging Markets	-1.5	2.3
MSCI BRIC Index	-3.5	-0.1

FIXED INCOME

The 10-Year Treasury yield closed at a 14-month high of 1.71% responding to growing inflation concerns. The Fed deftly sidestepped market action allowing bond vigilantes to tap the brakes as the Fed maintained its stay-the-course messaging. Predictably, high yield credits benefitted from lower default risks while rising rates hit existing bond returns. Tax-exempt bond holders and issuers experienced a public finance jubilee as stimulus provided ample rescue funds. Likely higher income tax rates also enhanced the lure of tax exempts.

	Month (%)	YTD (%)
U.S. Intermediate Treasuries	-0.7	-1.8
U.S. Long Treasuries	-5.0	-13.5
U.S. TIPS	-0.2	-1.5
Corporate IG Bonds	-1.8	-4.9
High-Yield Bonds	0.1	0.8
Tax-Exempt Bonds	0.6	-0.4

CURRENCIES

Strong economic data, improving relative real yields, and aggressive infrastructure spending drove the US dollar's best monthly run in five years, reaching a one-year high against the yen and five-month high versus the euro. EM currencies were dragged down by a weakening Chinese renminbi which fell as policy rates tightened in response to economic growth. The Canadian dollar continued higher against the US dollar based on faster economic growth, firmer oil prices, and expected economic spillover from US stimulus spending.

	Month (%)	YTD (%)
US Dollar	2.6	3.7
Euro	-2.9	-4.0
Yen	-3.8	-6.7
Emerging Markets[1]	-0.9	-1.1
Canadian Dollar	1.4	1.4

REAL ASSETS

Commodities sold off as investors took profits in the face of a strengthening US dollar which increased the real cost of commodities to most buyers worldwide. Gold continued to fall, down for the third consecutive month. With growth and vaccinations accelerating, accompanied by higher nominal and real yields, gold is substantially less attractive. MLPs continued to benefit from rising energy prices and attractive distribution yields. REITs benefitted from the intersection of low home supply and eager new home buyers.

	Month (%)	YTD (%)
Commodities[2]	-2.1	6.9
Energy	-3.6	17.3
Industrial Metals	-2.4	7.5
Gold	-0.9	-9.8
Master Limited Partnerships[3]	6.9	22.0
Real Estate Investment Trusts[4]	4.4	8.8

HEDGE STRATEGIES

Directional equity strategies struggled this month under significant technical volatility. Long positions did not keep pace with index benchmarks while realized volatility and exposure to long indices increased. Much of the problems were masked by a strong market. With gross and net exposures still relatively high, a quick market correction would likely dominate selection skill. Despite robust M&A and consistent runs in the US dollar, rates, and commodities after the 17th, managers did not generate strong returns.

	Month (%)	YTD (%)
Equity Hedge	0.6	2.3
Equity Market Neutral	1.3	2.5
Event Driven	-0.1	1.9
Relative Value Arbitrage	-0.8	-0.1
Macro	-0.3	0.4

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