GREYCOURT

Capital Market Flash Report

April 2021 Not everything worth doing is worth overdoing. Coordinated fiscal and monetary stimulus was a godsend to address the income destruction associated with COVID-19. With recovery accelerating, and investors enjoying paper wealth and spending power, fabulous policy success is a risk that stokes inflation fears. If coordinated stimulus is overdone, the fault line of anchored inflation expectations will be shaken, and the willingness and capacity of the Fed and Treasury to act will be put to the test.

US EQUITY

Underlying fundamentals proved to be in great shape. S&P 500 data revealed a V-shaped recovery in revenue, earnings, and profit margins. Personal income was off the charts, and personal savings soared, fueling growth and expectations of future profits. Predictably, exuberant investors emphasized growth, and the top 50 largest stocks outperformed all other larger and smaller stocks in rank order. High beta and higher momentum stocks outperformed peers as cyclical sectors, led by real estate, dominated the sector leader board.

	Month (%)	YTD (%)
S&P 500	5.3	11.8
Russell 1000	5.4	11.6
Russell 1000 Value	4.0	15.7
Russell 1000 Growth	6.8	7.8
Russell 2000	2.1	15.1
Russell 2000 Value	2.0	23.6
Russell 2000 Growth	2.2	7.2

NON-US EQUITY

Except for Japan, local currency returns were positive but less than those in the US. Adjusting for the dollar's decline, non-US stock returns increased materially. Investors in non-US developed stocks looked beyond a technical double-dip recession in the eurozone, prompted by a Q/Q decline in German growth, viewing a jump in inflation as indicative of economic resilience and strong prospects once vaccination delays are addressed. Pacific ex-Japan and Asia led non-US returns with growth and small stocks favored across markets.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	3.0	6.7
MSCI EAFE	3.1	6.8
MSCI Europe	4.7	9.1
MSCI Japan	-1.5	0.2
MSCI Emerging Markets	2.5	4.9
MSCI BRIC Index	1.3	1.2

FIXED INCOME

Bond markets wrestled with the size, impact, and timing of fiscal stimulus, evaluating when growth and inflation might undermine confidence in the Fed. Modest tightening is priced in currently, even as investors rush into inflation-protected funds. IG corporates and high yield bonds rose on growth and steady default expectations, while SPAC investment in high yield companies set a pace last seen in the dotcom boom. Record inflows into munis and modest supply pushed returns higher given fiscal backstops and expected tax rate increases.

	Month (%)	YTD (%)
U.S. Intermediate Treasuries	0.4	-1.4
U.S. Long Treasuries	2.3	-11.5
U.S. TIPS	1.4	-0.1
Corporate IG Bonds	1.1	-3.9
High-Yield Bonds	1.1	1.9
Tax-Exempt Bonds	0.8	0.5

CURRENCIES

The focal point in currency markets was the Fed's resolve to hold its ground while economic activity explodes around it. The US dollar suffered an uninterrupted 3% sell-off as markets assessed the inflationary potential of extended fiscal stimulus and liquidity. A technical double-dip recession hit the eurozone, dampening a nearly 3.5% gain in the euro. EM currencies also rose, led by the Chinese renminbi, while the Canadian dollar increased on jumping retail sales and real GDP data that implied 6.5% growth (saar) in the first quarter.

	Month (%)	YTD (%)
US Dollar	-2.1	1.5
Euro	2.5	-1.6
Yen	1.3	-5.5
Emerging Markets[1]	1.5	0.3
Canadian Dollar	2.2	3.6

REAL ASSETS

The falling dollar, massive fiscal stimulus, easy money, and global supply lags in the face of accelerating global demand drove surging commodity prices. Near-term delivery prices in many markets were higher than future-delivery prices reflecting current shortages. Gold rebounded on consumer demand in India and China and central bank purchases to hedge against sovereign debt risks and prospective inflation. Oil and natural gas prices boosted MLPs, while vaccinations and stimulus cash money in the pocket lifted all REIT sectors.

	Month (%)	YTD (%)
Commodities[2]	8.3	15.8
Energy	7.1	25.6
Industrial Metals	8.8	17.0
Gold	3.0	-7.1
Master Limited Partnerships[3]	7.1	30.7
Real Estate Investment Trusts[4]	8.1	17.5

HEDGE STRATEGIES

Directional equity strategies posted exceptional returns, increasing net exposures and trading cyclicals and growth exposures with skill. Concerns that shorting would disappear after GameStop have been premature, although single-name shorting volumes are down while ETF usage is up. Short-alphas have also increased. M&A volumes began to pick up in April and managers delivered steady monthly returns. Macro managers exploited long and significant runs in commodity prices and currencies as volatility levels came down.

	Month (%)	YTD (%)
Equity Hedge	3.2	6.0
Equity Market Neutral	0.4	3.0
Event Driven	1.6	3.3
Relative Value Arbitrage	0.5	0.4
Macro	1.4	1.9

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