GREYCOURT

Capital Market Flash Report

May 2021 Reopening and stimulus are boosting spending and real economic growth. At the same time, accelerating growth is lifting wages and prices. Continuing to supply massive monetary and fiscal stimulus to a US economy—already recovered from last year's recession—risks creating excessive inflation, leading to Fed rate hikes earlier than markets expect. Even with OPEC exploiting climate change to its advantage, we believe technology-driven productivity gains and automation will constrain inflation and support equity returns.

US EQUITY

With record-high forward revenues, earnings, and margins; quarterly operating earnings up nearly 50%; material gains in productivity; and no indication of rising costs hitting profit margins, the S&P 500 posted another positive monthly return. Higher quality stocks outperformed lower quality stocks as economic recovery favored value, cyclical stocks, and smaller cap names. The best performing factors revealed a strong investor preference for companies hit hardest by the pandemic and are now best positioned for reopening.

	Month (%)	YTD (%)
S&P 500	0.7	12.6
Russell 1000	0.5	12.1
Russell 1000 Value	2.3	18.4
Russell 1000 Growth	-1.4	6.3
Russell 2000	0.2	15.3
Russell 2000 Value	3.1	27.5
Russell 2000 Growth	-2.9	4.1

NON-US EQUITY

Local currencies returns for non-US stocks were positive and consistent with US markets. Adjusting for the dollar, returns increased substantially except for Japan. European stocks led developed markets, posting their fourth consecutive month of gains. Investors anticipated better growth and earnings as confirmed by the EC's Economic Sentiment Indicator survey. Bouncing off monthly lows in the second week of May, EM Asia returned to a modest gain while Eastern Europe, Latin America, the Middle East, and Africa had large returns.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	3.2	10.1
MSCI EAFE	3.4	10.4
MSCI Europe	4.3	13.8
MSCI Japan	1.6	1.7
MSCI Emerging Markets	2.3	7.4
MSCI BRIC Index	3.4	4.7

FIXED INCOME

US Treasury yields traded in a narrow range. Even though the Fed discussed tapering, market expectations did not change substantially. Narrowing pressures in TIPs breakeven yields and weaker-than-expected employment data kept a lid on rates. Strong recovery views and inflation risks continued to drive inflation-protected returns. IG corporates and high yield bonds rose as credit spreads tightened, fading at month-end, however, over Fed policy uncertainty. Expected tax-rate hikes and strong summer technicals buttressed pricey munis.

	Month (%)	YTD (%)
U.S. Intermediate Treasuries	0.3	-1.1
U.S. Long Treasuries	0.5	-11.1
U.S. TIPS	1.2	1.1
Corporate IG Bonds	0.7	-3.1
High-Yield Bonds	0.3	2.2
Tax-Exempt Bonds	0.3	0.8

CURRENCIES

The focal point in currency markets was the Fed's desire to hold its ground while economic activity explodes around it. As a result, the US dollar traded down, turning negative for the year as markets discounted the inflationary potential of extended fiscal stimulus and liquidity. The euro jumped in response to growing confidence in EU recovery, improved vaccination programs, and opening borders. Importantly, China moved late in the month to slow the rapid rise of the renminbi against surging commodity prices and inflation.

	Month (%)	YTD (%)
US Dollar	-1.6	-0.1
Euro	1.7	0.1
Yen	-0.2	-5.7
Emerging Markets[1]	1.7	2.0
Canadian Dollar	1.9	5.6

REAL ASSETS

A falling dollar, fiscal stimulus, easy money, and accelerating global demand drove commodity prices higher, bolstered by expectations of policies and programs focused on job creation and environmental sustainability. Strong Chinese growth and demand for minerals used in green infrastructure boosted copper and industrial metals. MLPs and fossil fuels surged on economic growth and supply constraints. Gold jumped on debasement and exchange rate instability fears, while housing and rental demands supported positive REIT returns.

	Month (%)	YTD (%)
Commodities[2]	2.7	18.9
Energy	3.3	29.7
Industrial Metals	3.8	21.5
Gold	7.7	0.1
Master Limited Partnerships[3]	7.6	40.6
Real Estate Investment Trusts[4]	0.9	18.6

HEDGE STRATEGIES

Despite changing sentiment and flows across factors, sectors, and underlying themes, most strategies consistently added to gross exposures in May. Directional managers took advantage of equity dips in the second week to increase long positions, particularly in cyclical and high growth sectors. Single stock shorting increased for the ninth straight week, although high-short-interest shorting stopped after mid-month. Managers rotated successfully into growth exposures as they exited key inflation-linked sectors and retained some value exposures.

	Month (%)	YTD (%)
Equity Hedge	0.6	6.4
Equity Market Neutral	0.3	3.4
Event Driven	0.0	3.3
Relative Value Arbitrage	0.1	0.5
Macro	0.3	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/disclosure-of-indices/. Investing involves risks and you may incur a profit or loss. Past performance is no guarantee of future results.