GREYCOURT

Capital Market Flash Report

August 2021 Headlines were unfazed by the dog days of summer as Beijing clamped down on domestic firms, the Fed signaled that tapering is on the horizon, and inflation remained strong. All the while, a hurricane made landfall and a twenty-year war came to a chaotic end. Nonetheless, equity markets, unperturbed, continued to march upward; after all, stocks can perform well in an inflationary environment. If the market learned anything from this month, it was that COVID is not yet over, and consumer sentiment is shaky.

US EQUITY

Although more volatile than past months, stocks charged higher with the S&P 500 up over 100% since the pandemic bottom in March of 2020. Spiking COVID cases and the Fed signaling plans to taper its asset purchasing program before the end of 2021—news that most would have considered bearish—could not stall the historic bull run. A mid-month selloff in tech was short lived as larger growth-oriented firms outperformed and strong returns in the financial sector displayed the markets continued recovery hopes.

	Month (%)	YTD (%)
S&P 500	3.0	21.6
Russell 1000	2.9	20.7
Russell 1000 Value	2.0	20.3
Russell 1000 Growth	3.7	21.1
Russell 2000	2.2	15.8
Russell 2000 Value	2.7	25.4
Russell 2000 Growth	1.8	6.9

NON-US EQUITY

Once again, China dominated this month's headlines as Beijing continues to crack down on tech; halting 42 IPOs and banning new overseas listings for tech companies posing potential security risks. Chinese markets were down almost 7.5% in the news' wake adding to the estimated $1 trillion in foreign investor losses. Despite decreasing international interest, markets recovered from their bottom ending the month flat. Developed markets performed better, however, currency effects suppressed returns for stateside investors.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	1.9	9.7
MSCI EAFE	1.8	12.0
MSCI Europe	1.5	16.1
MSCI Japan	3.1	3.2
MSCI Emerging Markets	2.6	3.1
MSCI BRIC Index	2.2	-2.7

FIXED INCOME

The Fed's strengthening rhetoric around tapering did not spell Armageddon for debt markets; indices were down mildly on the month as the surge in yields—which many expected to accompany hawkish news—did not materialize. Support for credit came from overseas investors and domestic corporations, the latter of which parked excess cash in short-term investments to hedge against surging COVID cases. Tax-exempt bonds sold off for the first time since February as the historically rich muni market cooled off.

	Month (%)	YTD (%)
U.S. Intermediate Treasuries	-0.2	-0.5
U.S. Long Treasuries	-0.2	-4.8
U.S. TIPS	-0.2	4.3
Corporate IG Bonds	-0.3	-0.6
High-Yield Bonds	0.5	4.5
Tax-Exempt Bonds	-0.4	1.5

CURRENCIES

The dollar moved higher as international investors continue to purchase US Treasuries. Foreign ownership of Treasuries passed its pre-pandemic level as the comparatively attractive yield continues to provide stable, low-risk returns. In contrast to US markets where taper fears were largely shrugged off, the Eurozone did not fare as well with rising inflation putting pressure on the ECB. Growing political uncertainty in Japan added to the yen's poor year and a bad month for energy weakened the Canadian dollar.

	Month (%)	YTD (%)
US Dollar	0.5	3.0
Euro	-0.5	-3.3
Yen	-0.3	-6.1
Emerging Markets[1]	0.5	1.1
Canadian Dollar	-1.1	0.9

REAL ASSETS

Down over 15% during the month, fears of renewed lockdowns crushed energy markets; the trend was reversed by Hurricane Ida which halted production in the Gulf of Mexico. However, long-term fundamentals remain poor as developed nations look to reduce carbon emissions. Industrial metals were down slightly as supply chain bottlenecks begin to dissipate. REITs continued their strong year as rents start to rise again. Office REITs—real estate's only negative sector—responded to companies extending work from home policies.

	Month (%)	YTD (%)
Commodities[2]	-0.3	23.0
Energy	-0.4	49.5
Industrial Metals	0.3	22.7
Gold	0.1	-4.7
Master Limited Partnerships[3]	-2.3	35.3
Real Estate Investment Trusts[4]	1.9	30.2

HEDGE STRATEGIES

Equity hedge continued to outperform as market strength rewarded long exposure and managers—despite retail traders' best efforts—began to find success in their short books once again. Hawkish antitrust sentiment continues to haunt M&A activity resulting in a hard-fought low but positive return for event driven funds. Although currency and rates markets did not behave as expected to the Fed's growing desire to taper, macro funds performed well as managers capitalized on the chaos—or lack thereof.

	Month (%)	YTD (%)
Equity Hedge	1.2	9.6
Equity Market Neutral	-0.4	1.1
Event Driven	0.5	2.2
Relative Value Arbitrage	0.1	0.9
Macro	0.4	1.3

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/disclosure-of-indices/. Investing involves risks and you may incur a profit or loss. Past performance is no guarantee of future results.