GREYCOURT

Capital Market Flash Report

September 2021 Historically, September has been the worst month for equities; this time rising COVID cases, hawkish murmurs from central banks and a potential debt crisis in China served as the catalyst for the sell-off. Despite this month's decline, the S&P 500 recorded its sixth consecutive quarter of positive returns with only three negative months in that period. Unphased by shaky consumer sentiment and supply chain bottlenecks, analysts continue to forecast record earnings growth well into the future and we remain patient.

US EQUITY

US markets broke their 7-month winning streak in September posting their biggest losses since the crash in March 2020. The sell-off started as COVID cases rose to levels not seen since January. Markets were soothed mid-month by optimistic comments from Chairmen Powell however, a budget crisis in Washington sent markets back into the red. Energy was the only positive sector for the month off the back of surging commodity prices. Pressure from rising yields pushed tech lower.

	Month (%)	YTD (%)
S&P 500	-4.7	15.9
Russell 1000	-4.6	15.2
Russell 1000 Value	-3.5	16.1
Russell 1000 Growth	-5.6	14.3
Russell 2000	-2.9	12.4
Russell 2000 Value	-2.0	22.9
Russell 2000 Growth	-3.8	2.8

NON-US EQUITY

China continued to dominate headlines this month as an over-levered property developer—Evergrande—faced default. Markets feared that Evergrande's looming collapse could be a "Lehman moment" causing a global credit crunch derailing the COVID recovery. Such a collapse was avoided as Evergrande was able to service their debt however, doubts remain. Meanwhile, political uncertainty in Germany stalled developed markets. Japan was the only source of positive returns as a new administration raised growth expectations.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	-3.1	6.3
MSCI EAFE	-2.8	8.8
MSCI Europe	-4.7	10.6
MSCI Japan	2.9	6.2
MSCI Emerging Markets	-3.9	-1.0
MSCI BRIC Index	-3.8	-6.4

FIXED INCOME

Yields rose across the board as fixed income markets continue to anticipate the Fed's plans to taper. TIPS sold off after the August inflation report came in lower than expected. Long treasuries seemed to be set for a positive month until fears of tightening monetary policy sparked a sell-off; investment grade paper followed treasuries lower. High yield was flat as it remains one of the few sources of positive real yield and tax-exempt securities joined the sell-off as investors took profits in the exceptionally rich market.

	Month (%)	YTD (%)
U.S. Intermediate Treasuries	-0.6	-1.2
U.S. Long Treasuries	-2.9	-7.5
U.S. TIPS	-0.7	3.5
Corporate IG Bonds	-1.1	-1.7
High-Yield Bonds	0.0	4.5
Tax-Exempt Bonds	-0.7	0.8

CURRENCIES

The dollar strengthened as the Evergrande scare triggered a flight to safety; the corresponding sell-off in emerging currencies nearly erased year-to-date gains. The euro declined amid political uncertainty in Germany—the region's dominant economic force—and bearish sentiment continues to plague the yen. Although Japanese equites are strong and political sentiment is on the rise, monetary policy is expected to lag other developed economies. Despite energy prices rising, the Canadian dollar sold off as GDP growth slowed.

	Month (%)	YTD (%)
US Dollar	1.7	4.8
Euro	-1.9	-5.2
Yen	-1.1	-7.1
Emerging Markets[1]	-1.0	0.1
Canadian Dollar	-0.5	0.4

REAL ASSETS

Energy led commodities higher in September as natural gas surged 34%. With winter just around the corner, lower-than-average inventories in Europe and Asia are driving the bull run. Industrial metals sold off as logjams at ports around the world and power shortages in China stalled production although a military coup in Guinea drove aluminum prices to their highest level in 10 years. All the while, Gold sold off as the US dollar strengthened. Despite rents continuing to increase, rising yields led to a considerable sell-off in REITs.

	Month (%)	YTD (%)
Commodities[2]	5.0	29.1
Energy	17.0	74.9
Industrial Metals	-2.2	20.0
Gold	-3.4	-7.9
Master Limited Partnerships[3]	3.0	39.4
Real Estate Investment Trusts[4]	-5.5	23.0

HEDGE STRATEGIES

Lower-than-expected inflation, spiking yields, and a strengthening dollar spelled turmoil for macro managers. Equity managers—who have performed the best year-to-date—lagged as net long exposure created headwinds. Assuming 30-40% average net long exposure, they pared losses with alpha, which tracks with equity market neutral's slightly positive month. Volatility pressured event driven strategies, however, record setting IPO and M&A activity helped minimize losses.

	Month (%)	YTD (%)
Equity Hedge	-0.5	9.2
Equity Market Neutral	0.1	1.3
Event Driven	-0.1	2.2
Relative Value Arbitrage	-0.1	0.8
Macro	-1.2	0.1

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.