

GREY COURT

Capital Market Flash Report

US EQUITY

Despite persistent Omicron fears and hawkish policy from the Fed, markets closed the year's final month on a bullish note. The S&P 500 set its 70th record high during the penultimate trading day of the year to end a blockbuster 2021 for equities. Defensive, value-oriented names won out over cyclical/growth firms as investors adapted to a shifting environment. Smaller growth stocks underperformed as planned rate hikes are expected to harm their free cash flow projections and underlying valuation.

	Month (%)	YTD (%)
S&P 500	4.5	28.7
Russell 1000	4.1	26.5
Russell 1000 Value	6.3	25.2
Russell 1000 Growth	2.1	27.6
Russell 2000	2.2	14.8
Russell 2000 Value	4.1	28.3
Russell 2000 Growth	0.4	2.8

CURRENCIES

The yen's terrible year continued as investors' substantial risk appetite was better served elsewhere; a trend which affected the dollar on a smaller scale. Rising rates in the region spurred a mild recovery for the euro. Meanwhile, the Canadian dollar—which was down over 1% mid-month—benefitted from an oil market showing signs of recovery from the Omicron shock. Although facing headwinds from Turkey and Russia, emerging currencies were positive on the month bolstered by strength in South America.

	Month (%)	YTD (%)
US Dollar	-0.3	6.4
Euro	0.3	-6.9
Yen	-1.7	-10.2
Emerging Markets ¹	0.6	0.9
Canadian Dollar	1.1	0.8

December 2021 Equity markets finished strong as confidence in rebounding earnings powered through a resurging pandemic, high inflation and tightening monetary policy—or signals thereof. Rising long-term rates threatened to curb equity market strength earlier in the year but were left rangebound. The Inflationary outlook was not helped by a labor market that continues to tighten; it does, however, signal an economy relentlessly seeking growth. Despite delays, new fiscal support on the horizon may have added a tailwind.

NON-US EQUITY

Like their US counterparts, international markets shook off Omicron woes closing the year on a high note. Bolstered by strong holiday sentiment, Europe led the charge as investors experienced the second-best year since the Global Financial Crisis. Emerging markets—which were up almost 12% earlier in 2021—could not recoup their losses as a real estate debt bubble continues to weigh on the Chinese economy and Beijing seeks to maintain its power over its own firms. All the while, tensions continue to build on the Ukrainian border.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	4.2	8.3
MSCI EAFE	5.1	11.8
MSCI Europe	6.6	17.0
MSCI Japan	1.9	2.0
MSCI Emerging Markets	1.9	-2.2
MSCI BRIC Index	-1.0	-11.1

REAL ASSETS

Even with rising rates on the horizon, REITs strengthened as investors sought to capitalize on the growing economy and shelter assets against inflation. Industrial metals rounded off their best year since 2009 following an unexpected acceleration in Chinese factory activity. Gold—which was uncharacteristically excluded from 2021's surge in asset prices—had its best month of the year as hopes grow that tightening monetary policy will finally push investors toward the safe haven asset.

	Month (%)	YTD (%)
Commodities ²	3.5	27.1
Energy	2.8	52.1
Industrial Metals	6.4	30.3
Gold	2.9	-4.3
Master Limited Partnerships ³	3.6	40.2
Real Estate Investment Trusts ⁴	8.7	43.1

FIXED INCOME

Plagued by rate suppression, a roaring equity market and inflation at a three-decade high, 2021 was the worst year for bond investors in real terms since the Volcker Era. Traders seeking real returns sought refuge in TIPS and high-yield credits. Tax-exempt securities posted a mild return on the month despite an exceptionally rich market and the probability of a tax hike decreasing to near zero. Long dated treasuries moved inversely with equity markets erasing their gain of over 1.6% from earlier in the month.

	Month (%)	YTD (%)
U.S. Intermediate Treasuries	-0.3	-1.7
U.S. Long Treasuries	-1.4	-4.6
U.S. TIPS	0.3	6.0
Corporate IG Bonds	-0.2	-1.6
High-Yield Bonds	1.9	5.3
Tax-Exempt Bonds	0.2	1.5

HEDGE STRATEGIES

Equity hedge led the month, finishing the year decisively ahead. While net exposure was a tailwind, alpha generation was healthy with substantial dispersion in returns further reflected by equity market neutral's solid month. V-shaped returns and deal closure extensions were disruptive for event driven, but some prime brokerage reports show positive returns for the month and higher returns on the year. Macro had a solid month to close out a tough 2021 as rates markets delivered opportunities with a reasonably predictable Fed.

	Month (%)	YTD (%)
Equity Hedge	1.8	12.2
Equity Market Neutral	1.2	1.0
Event Driven	-1.2	0.5
Relative Value Arbitrage	0.5	0.4
Macro	0.9	-0.7

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MSCI returns are gross USD. Currency returns are Simple Price Appreciation (SPA) USD basis. Fixed Income reported on Bloomberg Barclays Indices. ¹MSCI Emerging Markets Currency Index. ²Bloomberg Commodity Indices. ³Alerian MLP Index. ⁴MSCI 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.

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