GREYCOURT

Capital Market Flash Report

January 2022 Equities declined sharply in anticipation of Fed policy tightening. First emerging last month with weakness in pockets of growth, the market's acute sensitivity to rates came to the forefront in January. With the Fed intent on a series of rate hikes in 2022, markets could no longer justify their elevated valuations. Similarly sensitive to rates, bonds fell in tandem with stocks leaving little room for diversification. Nonetheless, long-term earnings forecasts remain strong.

US EQUITY

January was the worst month for the S&P 500 since March 2020. Markets repriced in response to the Fed's continued hawkish rhetoric and intent for quantitative tightening throughout 2022. Tech and small cap fared the worst of the bunch as growth and free-cash flow projections move inversely to benchmark rates. However, bullish sentiment reemerged in the month's closing days encouraged by strong earnings reports from key tech firms and US GDP growth beating expectations for both the quarter and year.

	Month (%)	YTD (%)
S&P 500	-5.2	-5.2
Russell 1000	-5.6	-5.6
Russell 1000 Value	-2.3	-2.3
Russell 1000 Growth	-8.6	-8.6
Russell 2000	-9.6	-9.6
Russell 2000 Value	-5.8	-5.8
Russell 2000 Growth	-13.4	-13.4

NON-US EQUITY

Lower multiples abroad spared investors from the worst of the stateside correction. Trends in the US were mirrored overseas with a preference to hold larger, value-oriented names and sell smaller firms in growth sectors. However, developed markets lacked the fundamental support to join in the late-month rally as Japanese factory output fell more than expected and Omicron's spread slowed growth in the eurozone. Evergrande remains a source of turbulence in China as homebuilders continue to search for clean air.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	-3.7	-3.7
MSCI EAFE	-4.8	-4.8
MSCI Europe	-4.6	-4.6
MSCI Japan	-5.1	-5.1
MSCI Emerging Markets	-1.9	-1.9
MSCI China	-2.9	-2.9
MSCI Emerging ex-China	-1.4	-1.4

FIXED INCOME

Deteriorating fundamentals, rising rates and high duration caused an extraordinary selloff in fixed income, exceeding a standard deviation of historic returns. Exceptionally rich relative to comparable maturity treasuries, municipal bonds fell out of favor following the broader market's decline. Both investment grade and high yield bonds fell as spreads widened in response to a changing appetite for risk. With greater sensitivity to rising rates, higher rated corporate debt started the year with its fifth worst month on record.

	Month (%)	YTD (%)
U.S. Intermediate Treasuries	-1.3	-1.3
U.S. Long Treasuries	-4.1	-4.1
U.S. TIPS	-2.0	-2.0
Corporate IG Bonds	-3.4	-3.4
High-Yield Bonds	-2.7	-2.7
Tax-Exempt Bonds	-2.7	-2.7

CURRENCIES

Volatility in securities markets drove risk averse investors into yen and dollars, seeking reduced exposure to inflation in Japan and positive government yields in the US. The late rally in equities reignited optimism in riskier assets causing both currencies to close off their earlier highs. Like other highly speculative assets that experienced dramatic price fluctuation throughout the pandemic, bitcoin sold-off as liquidity began to dry up and the excessive use of margin debt exacerbating the fall.

	Month (%)	YTD (%)
US Dollar	0.9	0.9
Euro	-1.2	-1.2
Yen	0.0	0.0
Emerging Markets[1]	0.1	0.1
Canadian Dollar	-0.5	-0.5
Bitcoin	-17.0	-17.0

REAL ASSETS

Commodities continued to march higher reflecting the inflationary environment. Low inventories and growing European production drove industrial metal prices. Oil rose double digits as Omicron's spread disrupted travel less than expected. However, natural gas had the greatest contribution to rising energy prices as low temperatures, a short squeeze in futures and tensions between Russia and NATO caused prices to spike over 30%. REITs fell as rising rates increase borrowing costs and lower margins.

	Month (%)	YTD (%)
Commodities[2]	8.8	8.8
Energy	22.0	22.0
Industrial Metals	3.0	3.0
Gold	-1.9	-1.9
Master Limited Partnerships[3]	11.1	11.1
Real Estate Investment Trusts[4]	-6.9	-6.9

HEDGE STRATEGIES

Bearing the highest relative systematic risk, equity hedge fared the worst. However, positive returns generated by equity market neutral funds revealed that there was room for alpha generation in the drawdown. Sharp market movements were unhelpful for event driven strategies as corporate actions took a backseat to risk management. Broad alpha generation in pairing over/undervalued securities was also disrupted by the higher volatility environment; now illustrated below via the VIX index.

	Month (%)	YTD (%)
Equity Hedge	-2.8	-2.8
Equity Market Neutral	0.5	0.5
Event Driven	-1.1	-1.1
Relative Value Arbitrage	-1.4	-1.4
Macro	-1.9	-1.9
Volatility Index	44.2	44.2

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.

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