GREYCOURT

Capital Market Flash Report

February 2022 A high inflation report followed by Russian aggression toward Ukraine hit capital markets with a one-two punch leading to broad losses. Equity valuations were steady until Russia brought significant conflict to continental Europe for the first time since the breakup of Yugoslavia. Uncertainty surrounding future supply of key commodities pushed prices higher contributing further to widely held inflation concerns. TIPS responded, moving higher despite an earlier report detailing falling inflation expectations.

US EQUITY

Higher than expected inflation in January and rising tensions in Eastern Europe pushed US markets lower. Volatility increased in response to hawkish Fed signals and unsuccessful diplomatic efforts to maintain peace. With the economic impact of the invasion yet to be determined, expectations of a 0.5% rate hike decreased causing stocks to rally as war erupted. With less international exposure small- and mid-sized firms outperformed larger, multinational companies.

	Month (%)	YTD (%)
S&P 500	-3.0	-8.0
Russell 1000	-2.7	-8.2
Russell 1000 Value	-1.2	-3.5
Russell 1000 Growth	-4.2	-12.5
Russell 2000	1.1	-8.7
Russell 2000 Value	1.7	-4.3
Russell 2000 Growth	0.4	-13.0

NON-US EQUITY

Comparatively attractive valuations and lower sensitivity to rising rates stateside drove early gains. Fundamental tailwinds were fiercely overrun by Russia's invasion of Ukraine. However, markets quickly recovered off their lows with a preference for small- and mid-cap names. Proximity to the conflict dampened the rally's effects as emerging Europe was unable to meaningfully recover from a 30% drop. China suffered from their complex but largely positive relationship with Russia contributing further to EM's underperformance.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	-2.0	-5.6
MSCI EAFE	-1.8	-6.5
MSCI Europe	-2.8	-7.2
MSCI Japan	-1.1	-6.1
MSCI Emerging Markets	-3.0	-4.8
MSCI China	-3.9	-6.7
MSCI Emerging ex-China	-2.5	-3.9

FIXED INCOME

Consumer prices rose 7.5% in January; the fastest pace in almost 40 years. Anticipating a swift response from the Fed, bond prices fell. Long-dated treasuries were in freefall, down 5% as the yield on the benchmark 10-year note surpassed 2% for the first time since 2019. As geopolitical tensions wreaked havoc in equities, investor demand for safety drove yields back down. Investment grade credits—plagued by elevated duration risk—sold-off while TIPS managed to turn positive in the month's final trading session.

	Month (%)	YTD (%)
U.S. Intermediate Treasuries	-0.4	-1.7
U.S. Long Treasuries	-1.5	-5.5
U.S. TIPS	0.9	-1.2
Corporate IG Bonds	-2.0	-5.3
High-Yield Bonds	-1.0	-3.7
Tax-Exempt Bonds	-0.4	-3.1

CURRENCIES

Safe haven currencies erased early losses reflecting a decline in risk appetite. Regional uncertainty led to another negative month for the euro which ended 2% below its peak. Rising energy prices and inelastic demand pushed the Canadian dollar higher. Despite a broad sell-off in emerging currencies, the yuan traded up 1% highlighting a strong trade surplus and Beijing's growing economic influence. Bitcoin and other cryptocurrencies gained as peer-to-peer digital wallets allowed an eager public to contribute to Ukraine's defense.

	Month (%)	YTD (%)
US Dollar	0.2	1.1
Euro	-0.1	-1.3
Yen	0.1	0.1
Emerging Markets[1]	-0.5	-0.4
Canadian Dollar	0.3	-0.3
Bitcoin	8.4	-10.1

REAL ASSETS

Suppling a combined 26% of global grain exports, the ongoing war between Russia and Ukraine caused an 8% spike in agriculture prices. Although the West has been reluctant thus far to sanction Russian energy and mineral exports, prices rose on the back of geopolitical uncertainty and persistent inflation. Gold had its best month since July 2020 as investors sought to reduce risk and preserve buying power. REITs continued to decline as rising rates reduce growth prospects.

	Month (%)	YTD (%)
Commodities[2]	6.2	15.6
Energy	4.5	27.4
Industrial Metals	6.4	9.5
Gold	5.8	3.8
Master Limited Partnerships[3]	4.8	16.4
Real Estate Investment Trusts[4]	-3.2	-9.9

HEDGE STRATEGIES

Equity hedge had positive returns with good security selection. Market neutral strategies were flat likely due to risk management routines associated with higher gross exposure. Macro generated positive returns where modest gains from rates, foreign exchange, and commodities trading were protected with good risk management. Heightened volatility led to flat returns in event driven while generating losses in relative value arbitrage. Another big move higher in the VIX reflects expectations of higher volatility on the horizon.

	Month (%)	YTD (%)
Equity Hedge	0.4	-1.7
Equity Market Neutral	0.0	0.4
Event Driven	0.0	-0.8
Relative Value Arbitrage	-1.2	-2.5
Macro	0.5	-1.2
Volatility Index	21.4	75.1

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.

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