

GREY COURT

Capital Market

Flash Report

March 2022 With one eye on Russia and one eye on the Fed, markets began the month by taking risk off the table. However, the Fed only moderately increased rates, the war appeared to be contained, earnings expectations remained healthy, and a rebound ensued. While China's position on Ukraine is murky, Xi issued key policy statements supporting their markets and a big drawdown was softened. Rising rates, plans for further tightening, and persistent inflation pressured fixed income, while the war supported commodity prices.

US EQUITY

US equities broadly appreciated despite the Federal Reserve making its first of seven planned rate hikes. While markets posted their best month of the year, Q1 offered the worst quarterly returns for investors in two years. Energy equities lead the recovery capitalizing on rising energy prices. Utilities also performed well, while financials and consumer staples were a drag on returns. Large cap growth outperformed despite mixed results among top names, while value continued to lead growth in small caps.

	Month (%)	YTD (%)
S&P 500	3.7	-4.6
Russell 1000	3.4	-5.1
Russell 1000 Value	2.8	-0.7
Russell 1000 Growth	3.9	-9.0
Russell 2000	1.2	-7.5
Russell 2000 Value	2.0	-2.4
Russell 2000 Growth	0.5	-12.6

CURRENCIES

Despite persistent inflation, the US dollar continued to appreciate as global concerns continue to drive investors to quality. Preference for safety in Japan was eclipsed by central bank policy as the BOJ—unlike other developed central banks—cut rates to combat rising bond yields and maintain a stimulating effect on their economy. The euro fell as uncertainty remains over the fallout from tensions in the eastern part of the continent and the Canadian dollar rose amid growing demand for its fossil fuels.

	Month (%)	YTD (%)
US Dollar	1.7	2.8
Euro	-1.4	-2.7
Yen	-5.5	-5.4
Emerging Markets ¹	0.9	0.6
Canadian Dollar	1.3	1.0
Bitcoin	9.9	-1.2

NON-US EQUITY

European equities were flat as they digested the effects of the war between Ukraine and Russia. Despite increasing sanctions, Russian gas continued to flow into Europe preventing a further sustained spike in energy prices. Equities in Japan generated 5% domestically but were unattractive for unhedged US investors as a decline in the yen overran gains. Emerging markets faced headwinds, primarily due to China, as the real estate sector continued to weaken and a resurgent COVID led to a return of economic constraints.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	0.2	-5.3
MSCI EAFE	0.8	-5.8
MSCI Europe	0.0	-7.2
MSCI Japan	-0.3	-6.4
MSCI Emerging Markets	-2.2	-6.9
MSCI China	-8.0	-14.2
MSCI Emerging ex-China	0.5	-3.4

REAL ASSETS

The bull market in real assets continued in March, with commodities closing the first quarter up over 25%. Already benefiting from an inflationary environment, commodity prices continued to find support from the Russian invasion of Ukraine, particularly in energy, industrial metals and agriculture. Gold continued to appreciate after falling out of favor through the pandemic (Bitcoin was down slightly on the quarter). REITs also participated with a strong rebound after declining for the first two months of the quarter.

	Month (%)	YTD (%)
Commodities ²	8.6	25.5
Energy	16.1	47.9
Industrial Metals	12.1	22.7
Gold	2.7	6.6
Master Limited Partnerships ³	2.0	18.8
Real Estate Investment Trusts ⁴	6.5	-4.1

FIXED INCOME

Plagued by record high duration, inflation and rising rates, fixed income remained in a bear market as support from central banks continued to dry up. With the Fed's plan for seven rate hikes, a flattening and even inverting yield curve in some cases spooked investors. Longer dated treasuries fared the worst. Tax-exempt bonds had their worst quarter since the 1980s, due to outflows possibly for tax payments elsewhere and overall issuance. Despite a strong CPI, TIPS were unable to generate gains beyond interest rate effects.

	Month (%)	YTD (%)
U.S. Intermediate Treasuries	-2.5	-4.2
U.S. Long Treasuries	-5.3	-10.6
U.S. TIPS	-1.9	-3.0
Corporate IG Bonds	-2.7	-7.9
High-Yield Bonds	-1.1	-4.8
Tax-Exempt Bonds	-3.2	-6.2

HEDGE STRATEGIES

Equity hedge was positive, but a small loss in equity market neutral indicated a struggle for alpha with a market whipsaw. Event driven faded with high uncertainty and rising rates disrupting deal making and events broadly. While spreads in rates markets sent mixed signals disrupting relative value arbitrage, directional trades in macro were profitable with the Fed's anticipated policy move. Volatility subsided with further assessment of the war in Ukraine and a moderate move by the Fed.

	Month (%)	YTD (%)
Equity Hedge	1.8	-0.1
Equity Market Neutral	-0.2	0.2
Event Driven	-0.7	-1.7
Relative Value Arbitrage	-0.9	-3.5
Macro	3.2	1.0
Volatility Index (VIX)	-31.8	19.4

Data Source: Bloomberg. 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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