

# GREY COURT

## Capital Market Flash Report

### US EQUITY

Coming off the worst start to a calendar year since 1939, equities extended their year-to-date losses to begin the month. However, spurred by strong retail earnings and growing confidence in the Fed's ability to control inflation, markets ended an 8-week losing streak, with the S&P 500 rallying over 6% in the final week of trading. Best positioned to deal with inflationary pressures, banks, energy and consumer staples led the charge up and to the right while growth names were left behind.

	Month (%)	YTD (%)
S&P 500	0.2	-12.8
Russell 1000	-0.2	-13.7
Russell 1000 Value	1.9	-4.5
Russell 1000 Growth	-2.3	-21.9
Russell 2000	0.2	-16.6
Russell 2000 Value	1.9	-8.2
Russell 2000 Growth	-1.9	-24.8

### CURRENCIES

The US dollar fell as international rates markets became relatively more attractive. Meanwhile, north of the border, the loonie rallied on support from rising energy prices which have offset fears that the Bank of Canada is not adequately committed to combating inflation. The euro approached parity with the dollar as inflation in the Eurozone hit the highest level since the currency's creation; however, stable economic data restored confidence in the region and pushed the currency off its lows.

	Month (%)	YTD (%)
US Dollar	-1.2	6.4
Euro	1.8	-5.6
Yen	0.8	-10.6
Emerging Markets <sup>1</sup>	0.5	-1.7
Canadian Dollar	1.7	-0.1
Bitcoin	-17.6	-31.4

**May 2022** Equity markets continued to grapple with inflation and growth. Two drawdowns were each met with rallies, ending with nearly flat returns for US large cap; international markets benefited from better valuations and a weakening US dollar. Inflation concerns became more prevalent in earnings reports, but the consumer remained strong, and the Fed acted within their stated intentions. Intermediate fixed income and credit gained as interest rate risk stabilized at attractive levels and energy prices added to their gains.

### NON-US EQUITY

Essentially flat on a local currency basis, a decline in the greenback saw dollar denominated investors realize positive returns overseas. Despite rising COVID cases in major cities, Chinese markets rallied as Beijing started to relax the nation's COVID policies. European markets closed off their highs following an expanded EU ban on energy imports from Russia. Rising fossil fuel costs have added to inflation concerns in the region where Germany reported prices rising at the fastest pace since reunification.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	0.8	-10.5
MSCI EAFE	0.9	-11.0
MSCI Europe	1.0	-11.6
MSCI Japan	1.6	-13.3
MSCI Emerging Markets	0.5	-11.7
MSCI China	1.2	-16.7
MSCI Emerging ex-China	0.1	-9.3

### REAL ASSETS

Growing travel demand, import bans on Russian natural gas and OPEC's reluctance to increase production have driven energy costs higher as gasoline prices stateside set new records week over week. Global growth concerns along with China releasing reserves pushed industrial metals lower. Agriculture prices closed off their highs as supply concerns were alleviated and gold prices fell as treasury yields rose. Meanwhile, REITs sold off as rising rates and signs the US housing market is cooling reduced growth expectations.

	Month (%)	YTD (%)
Commodities <sup>2</sup>	1.5	32.7
Energy	10.4	85.3
Industrial Metals	-6.5	7.6
Gold	-3.6	0.6
Master Limited Partnerships <sup>3</sup>	7.7	27.9
Real Estate Investment Trusts <sup>4</sup>	-6.2	-14.0

### FIXED INCOME

The benchmark 10-year yield hit a three-year high crossing over 3% before ending the month lower. Growing confidence in the Federal Reserve's response to inflation pushed TIPS lower. Contracting monetary policy pushed yields higher increasing investor appetite for investment grade, high yield, and tax-exempt credits. Additionally, fears of an economic slowdown increased interest in safe haven securities. Ultimately, fixed income markets generally rallied in the month's final week.

	Month (%)	YTD (%)
U.S. Intermediate Treasuries	0.7	-5.1
U.S. Long Treasuries	-1.9	-20.1
U.S. TIPS	-1.0	-5.9
Corporate IG Bonds	0.8	-12.7
High-Yield Bonds	0.2	-8.0
Tax-Exempt Bonds	1.5	-7.5

### HEDGE STRATEGIES

Fears of rising rates and stalling growth have led to "factor" rotations as investors shift in preference between value and growth names. These flows can lead to individual companies being under- or overvalued. This created opportunities for equity market neutral funds which generated gains among challenges for other hedge strategies. Equity hedge managers holding growth ideas continued to suffer and macro managers struggled with shifts in fixed income markets. The VIX retreated but remains high.

	Month (%)	YTD (%)
Equity Hedge	-0.6	-2.7
Equity Market Neutral	0.2	0.8
Event Driven	-1.6	-4.1
Relative Value Arbitrage	-1.0	-6.2
Macro	-1.3	1.5
Volatility Index (VIX)	-21.6	52.1

# Disclosures

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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. <sup>1</sup>MSCI Emerging Markets Currency Index. <sup>2</sup>Bloomberg Commodity Indices. <sup>3</sup>Alerian MLP Index. <sup>4</sup>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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