GREYCOURT

Capital Market Flash Report

August 2022 Markets began the month adding to July's rally. However, as the Fed's annual symposium approached, investors correctly anticipated Chairman Powell's aggressive stance against inflation. Accepting that rates will continue to rise for the foreseeable future, bonds and notably, commodities, followed equites lower. Although the consumer seems to be securely employed and reasonably healthy, the steep decline in IPO and M&A activity is one sign that the market is waiting for a better footing before putting cash back to work.

US EQUITY

The S&P 500 fell nearly 9% from its mid-month peak with big tech bearing the brunt of the sell-off. Despite easing supply chains, energy and utilities were the only sectors to end the month in the green. Surprisingly, smaller, growth-oriented stocks topped all other sizes and styles driven by the energy sector which has benefited from elevated prices while remaining relatively insulated from uncertainty abroad; however, small cap tech firms, were a drag on overall returns mirroring the large cap trend.

	Month (%)	YTD (%)
S&P 500	-4.1	-16.1
Russell 1000	-3.8	-16.9
Russell 1000 Value	-3.0	-9.8
Russell 1000 Growth	-4.7	-23.2
Russell 2000	-2.0	-17.2
Russell 2000 Value	-3.2	-12.2
Russell 2000 Growth	-0.9	-22.3

NON-US EQUITY

International developed equities also cratered amid persistent inflation and growing fears that, come winter, Europe may not be able to meet its energy needs. Conversely, emerging markets ended the month with moderate gains; receiving support from a comparatively late ease to COVID restrictions. Additional tailwinds were provided by an unexpected dovish pivot from the Bank of China following a concerted effort by Beijing to combat growing economic concerns and quell civil unrest.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	-3.2	-18.0
MSCI EAFE	-4.7	-19.2
MSCI Europe	-6.2	-21.6
MSCI Japan	-2.5	-17.7
MSCI Emerging Markets	0.5	-17.2
MSCI China	0.2	-19.4
MSCI Emerging ex-China	0.6	-16.3

FIXED INCOME

Fixed income provided no respite for weary investors as yields rose across the curve. Underscoring market uncertainty, a surge in the 2-year Treasury yield to a 15-year high further inverted the yield curve. Compounding the effects of Fed policy, fixed income markets face additional volatility as the central bank continues to unwind its $9 trillion balance sheet, letting shorter bonds mature and selling on the long end. Despite the highest recovery rates on record, junk bonds followed higher rated securities lower.

	Month (%)	YTD (%)
U.S. Intermediate Treasuries	-2.0	-6.5
U.S. Long Treasuries	-4.4	-22.7
U.S. TIPS	-2.7	-7.5
Corporate IG Bonds	-3.3	-15.7
High-Yield Bonds	-2.3	-11.2
Tax-Exempt Bonds	-2.2	-8.6

CURRENCIES

The dollar rose to a 20-year high showing continued strength against its trading partners. European inflation at a record high of 9.1% will likely force the ECB to adopt a more hawkish stance as the euro trades near parity to USD. Demonstrating the growing interest rate gap between the US and the rest of the world, dovish policy in Asia added to the greenback's momentum pushing the yuan and yen to 2- and 24-year lows, respectively. Bitcoin—the darling asset of 2021—added to its losses on the year with another double-digit decline.

	Month (%)	YTD (%)
US Dollar	2.6	13.6
Euro	-1.6	-11.6
Yen	-4.1	-17.2
Emerging Markets[1]	-1.1	-5.3
Canadian Dollar	-2.5	-3.7
Bitcoin	-15.7	-56.4

REAL ASSETS

Uncertain future demand led oil prices their lowest level since the Russo-Ukrainian War began easing pressure on strained strategic reserves. Natural gas on the other hand, reached a 14-year high as the US looks to meet demand in Western Europe left unfulfilled by unreliable pipelines in the east. Rising interest rates continue to plague REITs and expectations of slowing demand caused a decline in base metals. Meanwhile, droughts in the US and Europe caused agriculture prices to rise.

	Month (%)	YTD (%)
Commodities[2]	0.1	23.6
Energy	1.0	79.7
Industrial Metals	-2.7	-10.6
Gold	-2.9	-6.6
Master Limited Partnerships[3]	4.0	28.7
Real Estate Investment Trusts[4]	-6.0	-18.3

HEDGE STRATEGIES

Shrugging off a contracting SPAC market, event driven strategies won the month profiting from improved merger arbitrage spreads among a limited set of open deals. Ample opportunity for both directional and rate curve trades allowed macro managers to add to their lead on the year while rampant systematic risk hindered equity market neutral funds. Equity hedge was able to maintain returns generated during the rally early in the month before turbulence appeared once again along with a rise in implied volatility.

	Month (%)	YTD (%)
Equity Hedge	0.9	-2.7
Equity Market Neutral	-0.2	-2.1
Event Driven	2.1	-4.7
Relative Value Arbitrage	0.6	-6.7
Macro	1.1	2.9
Volatility Index (VIX)	21.3	50.2

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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