

GREY COURT

Capital Market Flash Report

October 2022 Equities broadly rebounded as the market interpreted weakness in select economic indicators as evidence the Fed may temper its aggressive policy. The third quarter GDP growth estimate reinforced this view, as measures of true underlying demand, such as final sales to domestic purchasers, came in significantly weaker than headline GDP growth. Interest rate exposure continued to be a headwind in fixed income while crude oil staged a rebound and the US dollar pared gains from its strong rally this year.

US EQUITY

Within a strong market rally, value outperformed growth as investors demonstrated caution in terms of where to lean back into markets. However, small cap outperformed large cap, likely due to the potential for safer domestic exposure with geopolitical risk abroad and a strong US dollar. Small cap also began the month with more attractive valuations. The tech sector, though positive, was among the weakest sectors while energy showed renewed strength with a rebound in both short-term and longer-term crude oil prices.

	Month (%)	YTD (%)
S&P 500	8.1	-17.7
Russell 1000	8.0	-18.5
Russell 1000 Value	10.3	-9.3
Russell 1000 Growth	5.8	-26.6
Russell 2000	11.0	-16.9
Russell 2000 Value	12.6	-11.2
Russell 2000 Growth	9.5	-22.6

CURRENCIES

The US Dollar declined modestly, registering its first monthly loss since May, and only the second this year. The euro gained as inflation drove the European Central Bank to raise rates in similar increments as the Fed with hawkish signaling. However, the yen and emerging markets currencies continued to decline. The Canadian dollar rose with the rebound in oil prices. Bitcoin was able to benefit from some of the “risk-on” sentiment in equities during the month as cryptocurrencies seek to reverse a major drawdown this year.

	Month (%)	YTD (%)
US Dollar	-0.5	16.6
Euro	0.8	-13.1
Yen	-2.7	-22.6
Emerging Markets ¹	-0.9	-9.1
Canadian Dollar	1.5	-7.2
Bitcoin	5.0	-56.0

NON-US EQUITY

Non-US equities posted strong gains, but underperformed US equities. Europe led Japan among developed markets as seasonal energy concerns eased with strong natural gas storage levels. China pulled emerging markets lower as investors did not respond well to President Xi consolidating power among likeminded support while he embraced another term; meanwhile COVID lockdowns continued to emerge and weigh on growth. China’s performance brought an otherwise positive month for emerging markets into negative territory.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	3.0	-24.0
MSCI EAFE	5.4	-22.8
MSCI Europe	7.2	-23.3
MSCI Japan	3.0	-23.9
MSCI Emerging Markets	-3.1	-29.2
MSCI China	-16.8	-42.7
MSCI Emerging ex-China	3.2	-22.5

REAL ASSETS

Energy led the commodity index higher despite industrial and base metals adding to their losses for the year. Crude oil gained as OPEC broadcast their intentions to curtail supply even as the US releases barrels from the strategic petroleum reserve. Agriculture (not shown) provided only small gains despite the ongoing disruption of exports caused by the war in Ukraine. The strength in energy pricing combined with the rise in equity markets fed a rally in MLP valuations, while REITs gained but remained constrained by higher rates.

	Month (%)	YTD (%)
Commodities ²	2.0	15.8
Energy	4.4	56.4
Industrial Metals	-0.6	-16.6
Gold	-1.6	-10.7
Master Limited Partnerships ³	14.3	35.9
Real Estate Investment Trusts ⁴	4.9	-24.8

FIXED INCOME

While volatility in the UK Gilt market was a distraction, it did not lead to contagion. Nonetheless, interest rates continued to rise across the Treasury yield curve. This added substantial losses to long dated Treasuries with a lower impact on intermediate Treasuries. High yield bonds rose with the positive sentiment in equity markets while TIPS also gained ground as their inflation adjustment component outran the challenge of rising yields. Losses in municipal bonds were contained by the interaction of supply and strong demand.

	Month (%)	YTD (%)
U.S. Intermediate Treasuries	-0.5	-9.1
U.S. Long Treasuries	-5.5	-32.8
U.S. TIPS	1.2	-12.5
Corporate IG Bonds	-1.0	-19.6
High-Yield Bonds	2.6	-12.5
Tax-Exempt Bonds	-0.8	-12.9

HEDGE STRATEGIES

Equity hedge had the strongest return albeit lower than net exposure would suggest for the month. Meanwhile, equity market neutral was able to generate a modest return suggesting room for alpha generation. Event driven once again ran up against high volatility in a tough environment for deal making, as portfolio managers await the start of a new distressed cycle. Macro, the best strategy this year, gave back a small amount as the trend in the US dollar subsided and incremental moves in rates were less predictable.

	Month (%)	YTD (%)
Equity Hedge	1.0	-3.9
Equity Market Neutral	0.4	-0.9
Event Driven	-1.6	-6.9
Relative Value Arbitrage	0.7	-9.2
Macro	-0.1	6.0
Volatility Index (VIX = 25.9)	-18.2	50.3

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. 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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