GREYCOURT

Capital Market Flash Report

November 2022 Equities delivered a strong rebound across the board for the second month in a row. The Fed began the month hawkish, but with a largely expected rate hike of 75 basis points. A subsequent uptick in the unemployment rate followed by a small decline in inflation supported bullish sentiment as fears of stronger Fed tightening subsided. The Fed indeed ended the month signaling a smaller rate hike in December and the bond market gained with softening intermediate and long-term rates.

US EQUITY

Large cap outperformed small cap as a weakening US dollar reduced the value of seeking safe harbor in companies with higher domestic sales. Value outperformed growth again as discount rates remain high and may yet go higher. The materials sector performed the best with the balance of demand for their output meeting constrained supply, while consumer discretionary generated the lowest return. It is worth noting large cap value investors would now consider 2022 only a moderate down year with a loss of less than 4%.

	Month (%)	YTD (%)
S&P 500	5.6	-13.1
Russell 1000	5.4	-14.1
Russell 1000 Value	6.2	-3.7
Russell 1000 Growth	4.6	-23.3
Russell 2000	2.3	-14.9
Russell 2000 Value	3.1	-8.5
Russell 2000 Growth	1.6	-21.3

NON-US EQUITY

Non-US equity broadly outperformed domestic markets even after adjusting for a decline in the US dollar. Concerns regarding Europe's access to energy in the winter months continued to ease with supply lines outside of Russia providing support, and natural gas at 94% of storage capacity. Equity markets in China staged a massive rebound in the first half of the month, as the market looked toward more economic reopening, and added gains in the final days of the month with protests against COVID lockdown policies.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	11.8	-15.0
MSCI EAFE	11.3	-14.1
MSCI Europe	11.4	-14.6
MSCI Japan	9.7	-16.5
MSCI Emerging Markets	14.8	-18.6
MSCI China	29.7	-25.7
MSCI Emerging ex-China	9.4	-15.2

FIXED INCOME

While short-term rates rose with tightening Fed policy, rates further out the curve declined. Long-term Treasuries surged as an increasing inversion of the yield curve signaled a potential inflation-reducing recession and reflected a lower expected peak for Fed policy. Investment grade and oversubscribed tax-exempt bonds shared in the gains, while high yield bonds trailed a bit with lower duration and perhaps some caution regarding a potential recession. Easing inflation concerns limited the demand for TIPS.

	Month (%)	YTD (%)
U.S. Intermediate Treasuries	1.7	-7.5
U.S. Long Treasuries	7.1	-28.0
U.S. TIPS	1.8	-10.9
Corporate IG Bonds	5.2	-15.4
High-Yield Bonds	2.2	-10.6
Tax-Exempt Bonds	4.7	-8.8

CURRENCIES

Easing expectations of Fed hawkishness, especially relative to other central banks, led to a substantial decline in the US dollar. The euro gained with pressure on the European Central Bank to close the gap relative to US rates as they fight their own battle with inflation. The yen gained even more as inflation came in higher than expected, signaling the need for higher rates which would take pressure off the gap in rates with the US. Cryptocurrencies continued to face a whirlwind of pressure with a notable collapse of key brokers and dealers.

	Month (%)	YTD (%)
US Dollar	-5.0	10.7
Euro	5.3	-8.5
Yen	7.7	-16.6
Emerging Markets[1]	3.6	-5.8
Canadian Dollar	1.6	-5.8
Bitcoin	-16.2	-63.1

REAL ASSETS

Oil prices declined while the price of natural gas gained with the approaching winter. Metal prices rose with a declining US dollar and supporting fundamentals. Despite a bullish month for financial markets, gold gained on its safe-haven status with a potential escalation in the war in Ukraine and the collapse in cryptocurrencies. Industrial metals surged with hopes of a reduction of COVID lockdowns in China and tight supply to meet any expansion in demand. REITs gained with equities and the improved outlook for rates.

	Month (%)	YTD (%)
Commodities[2]	2.7	19.0
Energy	-0.7	55.2
Industrial Metals	14.5	-4.5
Gold	6.8	-4.7
Master Limited Partnerships[3]	1.1	37.4
Real Estate Investment Trusts[4]	5.8	-20.4

HEDGE STRATEGIES

Equity hedge and equity market neutral delivered muted and mixed results as a trending market driven by macroeconomic forces did not reward fundamental security selection. An ongoing decline in volatility allowed relative value arbitrage to deliver the strongest return as disruptions in pricing relationships migrated toward long term norms. Global macro, which had delivered the strongest returns for the year, lost money with positioning in the US dollar, longer term rates and spreads, and some commodities.

	Month (%)	YTD (%)
Equity Hedge	0.3	-3.5
Equity Market Neutral	-0.2	-1.0
Event Driven	0.0	-7.0
Relative Value Arbitrage	1.5	-7.8
Macro	-2.4	3.7
Volatility Index (VIX = 20.6)	-20.5	19.5

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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