GREYCOURT
Capital Market Flash Report

December 2022 Equities ended their worst year since 2008 with widespread losses, while a modest upward shift across most of the yield curve drove negative returns in fixed income. The Fed finished a year of historically steep rate hikes with a 0.5% increase in its policy rate and reiterated its commitment to restore price stability through restrictive monetary policy. The US dollar depreciated against a basket of currencies as currency markets see limited room for the Fed to raise interest rates much further.

US EQUITY

Equity markets continued to grapple with a widely anticipated recession and an expected decline in earnings growth. Shifting perceptions of future Fed action continued to drive mini rallies and retreats. In a year of declining valuations with rising discount rates, large cap value continued to offer the best buffer with the smallest decline for the month and the year. All sectors suffered losses, with consumer discretionary declining the most, while healthcare and utilities offered some defense.

	Month (%)	YTD (%)
S&P 500	-5.8	-18.1
Russell 1000	-5.8	-19.1
Russell 1000 Value	-4.0	-7.5
Russell 1000 Growth	-7.7	-29.1
Russell 2000	-6.5	-20.4
Russell 2000 Value	-6.6	-14.5
Russell 2000 Growth	-6.4	-26.4

NON-US EQUITY

Non-US equity broadly outperformed domestic markets, but most generated losses on a local currency basis. Europe outperformed the US with more attractive valuations heading into the month. Japan made small steps toward loosening control of its yield curve which weighed on equity returns. China continued a rebound from a year-to-date loss of more than 42% (as of October) as investors gauged Xi's messaging to refocus on economic growth after tightening regulations and securing a grip on power.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	-0.7	-15.6
MSCI EAFE	0.1	-14.0
MSCI Europe	0.0	-14.5
MSCI Japan	0.3	-16.3
MSCI Emerging Markets	-1.4	-19.7
MSCI China	5.2	-21.8
MSCI Emerging ex-China	-4.2	-18.8

FIXED INCOME

The yield curve was relatively stable when compared to its strong upward shifts over the course of the year. However, hopes of a sooner than later shift in Fed policy faded as long-term rates rose more than short-term rates. Long Treasuries therefore suffered the worst while other, lower-duration fixed income sectors exhibited smaller losses. High yield lost more than IG, but its higher income partially offset losses YTD. Tax-Exempt bonds uniquely saw a contraction in yields across maturities with durable demand and tight supply.

	Month (%)	YTD (%)
U.S. Intermediate Treasuries	-0.2	-7.8
U.S. Long Treasuries	-1.7	-29.3
U.S. TIPS	-1.0	-11.8
Corporate IG Bonds	-0.4	-15.8
High-Yield Bonds	-0.6	-11.2
Tax-Exempt Bonds	0.3	-8.5

CURRENCIES

The US dollar continued to ease against both developed and emerging market currencies as the market incorporated expectations of tapering rate hikes from the Fed. The yen made gains as the Bank of Japan announced plans to ease its yield curve control policy and the Euro gained with expectations that rates will continue to catch up to those in the US. The renminbi was supportive for the broader emerging markets index as it strengthened alongside the Chinese equity market over the last two months.

	Month (%)	YTD (%)
US Dollar	-2.3	8.2
Euro	2.9	-5.8
Yen	5.3	-12.2
Emerging Markets[1]	1.7	-4.3
Canadian Dollar	-1.0	-6.7
Bitcoin	-3.1	-64.2

REAL ASSETS

Energy prices fell, especially in natural gas markets, with the emergence of a warmer than average winter. Industrial metals continued to rise as a reopening China is expected to put pressure on limited supplies. Gold generated a solid gain as a safe haven with the decline in cryptocurrencies and possibly some concern for liquidity in Treasury markets. MLPs gave up some of their gains for the year alongside weakness in energy while REITs continued to suffer alongside equity markets and rising rates.

	Month (%)	YTD (%)
Commodities[2]	-2.4	16.1
Energy	-12.2	36.2
Industrial Metals	2.2	-2.4
Gold	4.1	-0.7
Master Limited Partnerships[3]	-4.7	30.9
Real Estate Investment Trusts[4]	-5.1	-24.5

HEDGE STRATEGIES

Equity market neutral gained as managers executed on mis-pricings that emerged with the macro driven market, while equity hedge lost money with its long leaning posture. Event driven had a small loss as deal making remained constrained and a distressed cycle remained deferred. Relative value was nearly flat, leaving it with its worst annual loss since 2008. Macro eked out a small return holding on to a gain for the year. Implied volatility rose but remained well below several peaks in 2022 when it was over 50% higher.

	Month (%)	YTD (%)
Equity Hedge	-0.1	-3.2
Equity Market Neutral	1.2	0.1
Event Driven	-0.2	-7.3
Relative Value Arbitrage	0.0	-7.7
Macro	0.1	3.8
Volatility Index (VIX = 21.7)	5.3	25.8

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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