GREYCOURT

Capital Market Flash Report

January 2023 Equity and bond markets kicked off 2023 with strong bullish sentiment. Investors embraced signs of easing inflation and a loosening labor market as a pathway to a soft landing. Expectations centered on smaller rate hikes with an end in sight. We caution that the Fed has never ended a rate hiking cycle with a negative real fed funds rate. A recession is still likely, if not at least a period of substantial downward pressure on earnings, as monetary policy remains tight with inflation still well above the Fed's target.

US EQUITY

The S&P 500 had its best January since 2019. More broadly, equity markets behaved as expected for a sentiment driven rebound. Growth outperformed value while small cap outperformed large cap with attractive valuations. "Risk on" sectors faired the best as communication services led the way followed by consumer discretionary and tech. Defensive sectors offered the lowest returns, including utilities (worst), healthcare, and consumer staples (best of the three).

	Month (%)	YTD (%)
S&P 500	6.3	6.3
Russell 1000	6.7	6.7
Russell 1000 Value	5.2	5.2
Russell 1000 Growth	8.3	8.3
Russell 2000	9.7	9.7
Russell 2000 Value	9.5	9.5
Russell 2000 Growth	9.9	9.9

NON-US EQUITY

Non-US equity outperformed US large cap equity with strong gains in Europe based on attractive valuations and as seasonal concerns regarding energy access continued to ease. Japan rallied as well but may have been held back by higher-than-expected inflation. China greatly expanded upon its December rally while India's Nifty 50 dropped on the recent news regarding the Adani Group. Emerging-market stocks broadly continued a five-week rally, their longest streak since 2020, supported by an easing US dollar.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	8.1	8.1
MSCI EAFE	8.1	8.1
MSCI Europe	8.7	8.7
MSCI Japan	6.2	6.2
MSCI Emerging Markets	7.9	7.9
MSCI China	11.8	11.8
MSCI Emerging ex-China	6.1	6.1

FIXED INCOME

Long-term Treasuries led a rebound in fixed income markets. The yield curve inverted further as short-term yields rose while intermediate and long-term yields declined. This fit the narrative that the Fed will continue with small rate hikes followed by a pause and then softening rate policy. High yield gained with bullish sentiment in equities and a chase for higher total yield. Tax exempt bonds were in demand and outperformed intermediate Treasuries with similar duration. TIPS were supported by the index's long duration.

	Month (%)	YTD (%)
U.S. Intermediate Treasuries	1.6	1.6
U.S. Long Treasuries	6.4	6.4
U.S. TIPS	1.8	1.8
Corporate IG Bonds	4.0	4.0
High-Yield Bonds	3.8	3.8
Tax-Exempt Bonds	2.0	2.0

CURRENCIES

The US dollar eased against developed and emerging market currencies as the Fed's rate policy matured toward a slower pace. China's reopening drove gains in the renminbi which supported EM currencies broadly. The Canadian dollar gained on higher-than-expected economic growth. The euro gained with relatively stronger expected rate hikes on the horizon while anticipation of further easing in yield curve control in Japan supported the yen. Bitcoin exhibited a spectacular rebound after a disastrous 2022.

	Month (%)	YTD (%)
US Dollar	-1.4	-1.4
Euro	1.5	1.5
Yen	0.8	0.8
Emerging Markets[1]	2.6	2.6
Canadian Dollar	1.9	1.9
Bitcoin	38.4	38.4

REAL ASSETS

Natural gas prices fell with a warm January, leading energy prices lower despite looming demand for crude oil in a reopening China. Industrial metals continued to gain with mounting scarcity on the back of the electrification of transportation. Gold gained with emerging economies seeking to build reserves and a weakening US dollar. Master limited partnerships and real estate investment trusts rallied with equity markets alongside the perception of a reduced threat from further large upward moves in interest rates.

	Month (%)	YTD (%)
Commodities[2]	-0.5	-0.5
Energy	-9.7	-9.7
Industrial Metals	8.1	8.1
Gold	6.0	6.0
Master Limited Partnerships[3]	6.6	6.6
Real Estate Investment Trusts[4]	10.6	10.6

HEDGE STRATEGIES

Event driven strategies benefited from reduced volatility which fell as it usually does in strong equity market rallies. A twisting yield curve provided ample opportunities for relative value arbitrage in fixed income markets while trading in currency and energy markets held back macro on the balance. The large and wide surge in equity markets rewarded passive exposure and offered little room for alpha as equity hedge appeared to show little value beyond its net exposure and equity market neutral generated a loss.

	Month (%)	YTD (%)
Equity Hedge	1.7	1.7
Equity Market Neutral	-0.1	-0.1
Event Driven	2.4	2.4
Relative Value Arbitrage	2.3	2.3
Macro	0.0	0.0
Volatility Index (VIX = 19.4)	-10.5	-10.5

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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