

GREYCOURT

Capital Market

Flash Report

US EQUITY

US equity declined with large cap underperforming small cap. As Q4 earnings reports for the S&P 500 continued to emerge during the month it became clear that earnings growth was negative on a year-on-year basis. This is the first such decline since Q3 2020 as performance has softened from peak levels during the COVID rebound. Growth lost less than value as it had already declined heavily on rate risk last year. Information technology was the only S&P 500 sector with a positive return, led by certain chip producers.

	Month (%)	YTD (%)
S&P 500	-2.4	3.7
Russell 1000	-2.4	4.2
Russell 1000 Value	-3.5	1.5
Russell 1000 Growth	-1.2	7.0
Russell 2000	-1.7	7.9
Russell 2000 Value	-2.3	7.0
Russell 2000 Growth	-1.1	8.8

CURRENCIES

The US dollar showed renewed strength on revised expectations for future rate hikes. The yen declined the most as Japanese investors sold yen to ramp up their holdings of overseas debt with substantially higher rates than they can achieve at home. The euro declined by less, supported by ongoing tightening in monetary policy and projections that the reopening in China will drive export demand and tourism. The Canadian dollar retreated with falling energy prices.

	Month (%)	YTD (%)
US Dollar	2.7	1.3
Euro	-2.6	-1.2
Yen	-4.5	-3.7
Emerging Markets ¹	-2.2	0.3
Canadian Dollar	-2.5	-0.7
Bitcoin	0.9	39.6

February 2023 Equity and fixed income markets retreated in a reversal of the bullish start to the year. Higher than expected inflation reports, indications of strong consumer spending, and an ongoing tight labor market drove negative sentiment with elevated expectations of further tightening by the Fed. As supply chain issues have eased, inflation concerns are more aligned with the level of demand which is directly in the Fed's wheelhouse for making an impact. Mixed results in the components of inflation indexes remained a concern.

NON-US EQUITY

Non-US equity lost money on a US dollar basis. An extraordinarily strong three month rebound in China was met with rising geopolitical tensions leading to a steep decline, weighing down emerging markets. On a local currency basis EAFE delivered positive returns (+0.6%), led by Europe (+1.4%) and followed by Japan (+0.7%), as investors pursued relatively attractive valuations. This is particularly notable in the energy sector in Europe while Japan continues to maintain relatively easy monetary policy.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	-3.5	4.3
MSCI EAFE	-2.1	5.9
MSCI Europe	-0.6	8.0
MSCI Japan	-3.8	2.1
MSCI Emerging Markets	-6.5	0.9
MSCI China	-10.4	0.2
MSCI Emerging ex-China	-4.5	1.3

REAL ASSETS

Commodity prices fell across the board including agriculture (not shown below). Industrial metals gave up their prior gains as aluminum, zinc, and nickel had double digit losses, with a more modest decline in copper. Crude oil declined while natural gas had a small gain after previously correcting for a warm winter. Gold retreated on expectations of higher rates; while it serves as a safe haven it does not generate a yield. Real estate investment trusts fell on higher rate risk while master limited partnerships generated smaller losses.

	Month (%)	YTD (%)
Commodities ²	-4.7	-5.2
Energy	-3.3	-12.6
Industrial Metals	-9.1	-1.8
Gold	-5.2	0.5
Master Limited Partnerships ³	-1.2	5.3
Real Estate Investment Trusts ⁴	-4.8	5.3

FIXED INCOME

The yield curve rose across the board, more so for intermediate and long-term maturities than short term maturities. This led to steep losses in long term Treasuries followed by corporate investment grade bonds. Intermediate Treasuries and tax-exempt bonds generated smaller losses. We note that tax-adjusted yields for tax exempt bonds are now more attractive than Treasuries across the curve after starting the year relatively expensive for maturities of three years or less.

	Month (%)	YTD (%)
U.S. Intermediate Treasuries	-1.8	-0.2
U.S. Long Treasuries	-4.7	1.4
U.S. TIPS	-1.4	0.4
Corporate IG Bonds	-3.2	0.7
High-Yield Bonds	-1.3	2.5
Tax-Exempt Bonds	-1.8	0.2

HEDGE STRATEGIES

Macro strategies were able to benefit from outsized movements in rates, currencies, and commodities markets while the rest of the hedge strategies generated losses. Event driven suffered the most as volatility and the threat of yet higher rates challenged deal making and special situations. Losses in equity hedge and equity market neutral strategies reflected a struggle for alpha in a month of elevated market risk. Equity volatility expectations, as measured by the VIX, rose with increased uncertainty, and remain historically high.

	Month (%)	YTD (%)
Equity Hedge	-0.6	1.0
Equity Market Neutral	-0.2	-0.3
Event Driven	-0.8	1.5
Relative Value Arbitrage	-0.5	1.8
Macro	0.5	0.6
Volatility Index (VIX = 20.7)	6.7	-4.5

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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