GREYCOURT

Capital Market Flash Report

March 2023 After a year of rate hikes, the cumulative decline in the value of fixed income assets on bank balance sheets helped trigger the failure of Silicon Valley Bank and sparked fear of contagion. Regulators moved quickly to contain the crisis with deposit guarantees followed by support for First Republic Bank from a consortium of large banks. The Fed maintained course fighting inflation with a quarter point rate hike while the market framed up a closer endpoint for monetary tightening, leading to gains in large cap equity and bonds.

US EQUITY

Broad large cap equity indexes generated gains with a more favorable outlook for discount rates. This was a strong tailwind for growth, supporting gains in technology and communication services, while value was out of favor. Financials suffered the most with the issues in the banking industry, followed by real estate which faces a tighter environment for credit. Small cap did not rebound from mid-month volatility with its exposure to weaker regional banks and the companies to which they provide debt capital.

	Month (%)	YTD (%)
S&P 500	3.7	7.5
Russell 1000	3.2	7.5
Russell 1000 Value	-0.5	1.0
Russell 1000 Growth	6.8	14.4
Russell 2000	-4.8	2.7
Russell 2000 Value	-7.2	-0.7
Russell 2000 Growth	-2.5	6.1

NON-US EQUITY

Asia outperformed Europe which faced its own banking crisis. Europe's largest sector is financials and UBS acquired a troubled Credit Suisse as the market scrutinized the health of Deutsche Bank. Japan benefited from exposure to growth with higher weights in the information technology and consumer discretionary sectors. Investors in China largely shrugged off geopolitical tensions with the United States and favored the stronger than expected economic data. US based investors also benefited from a weakening US dollar.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	2.5	7.0
MSCI EAFE	2.6	8.6
MSCI Europe	2.5	10.7
MSCI Japan	4.1	6.4
MSCI Emerging Markets	3.1	4.0
MSCI China	4.5	4.7
MSCI Emerging ex-China	2.4	3.7

FIXED INCOME

The yield curve broadly declined in a flight to safety with the onset of the banking crisis. The bond market then kept yields low, pricing in an achievement of Fed tightening in the form of a contraction in credit and a weaker outlook for aggressive future rate hikes. This drove strong returns especially for higher duration exposures that continue to rebound from last year. Muni bonds gained on the balance of safe-haven status over concern that some banks may sell for liquidity. Nervous bank depositors sought higher yields in money markets.

	Month (%)	YTD (%)
U.S. Intermediate Treasuries	2.5	2.3
U.S. Long Treasuries	4.7	6.2
U.S. TIPS	2.9	3.3
Corporate IG Bonds	2.8	3.5
High-Yield Bonds	1.1	3.6
Tax-Exempt Bonds	1.8	2.0

CURRENCIES

The US dollar broadly declined with the expectation that the Fed is closer to the end of the rate hiking cycle, and with an effective injection of liquidity through the Fed's favorable terms for lending to banks under the temporary Bank Term Funding Program. The yen gained on its safe-haven status while the market rewarded the view that further rate hikes are due in Europe. The Canadian dollar rose but was limited by softness in the energy markets. Meanwhile, bitcoin continued to find a strong rebound in 2023.

	Month (%)	YTD (%)
US Dollar	-2.3	-1.0
Euro	2.5	1.3
Yen	2.5	-1.3
Emerging Markets[1]	1.6	1.9
Canadian Dollar	1.0	0.3
Bitcoin	22.7	71.3

REAL ASSETS

Energy led commodity prices lower. Natural gas continued to decline with a warm winter and strong production. Crude oil fell with risk-off sentiment around the banking crisis, but prices partially rebounded on strong demand in Asia and robust refining margins. Gold surged as concerns regarding the safety of uninsured bank deposits emerged and remained elevated. REIT's declined with concerns regarding stress on commercial real estate which faces a higher cost of debt and softening demand for general office space.

	Month (%)	YTD (%)
Commodities[2]	-0.2	-5.4
Energy	-6.9	-18.7
Industrial Metals	-0.3	-2.1
Gold	7.6	8.1
Master Limited Partnerships[3]	-1.2	4.1
Real Estate Investment Trusts[4]	-2.5	2.7

HEDGE STRATEGIES

Several large macro funds were caught on the wrong side of rate movements generating significant losses. While the banking crisis may create opportunities for event driven strategies, the spike in volatility put pressure on existing investments, as well as on relative value arbitrage. Equity hedge strategies often favor value investments, and this led to losses, while tighter risk-controlled equity market neutral strategies managed to protect capital. After spiking mid-month, implied volatility settled meaningfully lower.

	Month (%)	YTD (%)
Equity Hedge	-0.3	0.6
Equity Market Neutral	0.0	-0.3
Event Driven	-1.9	-0.5
Relative Value Arbitrage	-0.9	0.9
Macro	-3.1	-2.6
Volatility Index (VIX = 18.7)	-9.7	-13.7

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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