

GREY COURT

Capital Market Flash Report

April 2023 Crosswinds of economic indicators and sentiment led to mixed results across markets. Hope for a soft landing supported developed large cap equity while fixed income markets navigated the US debt ceiling and rate hike expectations. Inflation generally softened, but remained above the Fed's target, while the employment cost index stayed persistently high and stress in regional banking clouded the outlook for credit. We remain cautious on equity and favorable on higher rates in short-term investment grade fixed income.

US EQUITY

Large cap earnings growth for the first quarter shaped up to be negative, for the second quarter in a row. However, there were several earnings surprises above muted expectations, including Amazon, and the market rose with better than feared results. Large cap growth continued its rebound as the market assumed we are past the peak of hawkish policy. Nonetheless, large cap value outperformed growth with economic headwinds on the horizon. The small cap market declined with a potentially tighter lending environment.

	Month (%)	YTD (%)
S&P 500	1.6	9.2
Russell 1000	1.2	8.8
Russell 1000 Value	1.5	2.5
Russell 1000 Growth	1.0	15.5
Russell 2000	-1.8	0.9
Russell 2000 Value	-2.5	-3.1
Russell 2000 Growth	-1.2	4.8

CURRENCIES

The dollar declined as negotiations for raising the debt ceiling remained in early stages and expectations matured for the rate hiking cycle to conclude with only one or two more hikes. The new governor of the Bank of Japan maintained negative rates, as expected, leading to a decline in the yen. The euro strengthened with the ECB rate hiking cycle expected to extend for a longer period than peers and Europe's trade deficit narrowed with easing energy prices, the latter of which softened the Canadian dollar.

	Month (%)	YTD (%)
US Dollar	-0.8	-1.8
Euro	1.7	2.9
Yen	-2.5	-3.8
Emerging Markets ¹	-0.3	1.6
Canadian Dollar	-0.3	0.0
Bitcoin	3.4	77.1

NON-US EQUITY

A rebound in the European financials sector, attractive valuations, and a strengthening euro, drove strong USD returns in Europe despite reports of tepid economic growth. This provided support to strong returns in EAFE where Japan offered a smaller contribution. Emerging markets were positive outside of China, while the market in China fell into negative territory for the year as geopolitical concerns and the reemergence of restrictive policies at home detracted from strong positive economic growth after reopening.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	1.8	8.9
MSCI EAFE	2.9	11.8
MSCI Europe	4.3	15.5
MSCI Japan	0.4	6.8
MSCI Emerging Markets	-1.1	2.9
MSCI China	-5.2	-0.7
MSCI Emerging ex-China	0.8	4.6

REAL ASSETS

Gold stood out among commodities as a safe haven with the uncertainty around the US managing its debt ceiling and brewing geopolitical risks in Europe and Asia. Industrial metals cooled off with economic growth indicators and forecasts. Refined products and international oil markets drove energy modestly lower, adding to the year's sell-off, but OPEC policy and an increase in international travel with China's rebound could drive oil higher. REITs remain under pressure with concerns in the commercial/office segment.

	Month (%)	YTD (%)
Commodities ²	-0.8	-6.1
Energy	-0.5	-19.1
Industrial Metals	-3.4	-5.5
Gold	1.0	9.2
Master Limited Partnerships ³	1.7	5.9
Real Estate Investment Trusts ⁴	0.8	3.6

FIXED INCOME

The US debt ceiling joined the fight against inflation among key concerns in the fixed income market. The short end of the yield curve (2 to 4 months) swelled in alignment with the timing of the debt ceiling limit. Strong positive carry in Treasuries, investment grade corporate bonds, and high yield bonds generated positive returns for the month. Municipal bonds had a negative return as investors pursued more favorable rates in Treasuries, however, they are now more attractively priced with low net new issuance on the horizon.

	Month (%)	YTD (%)
U.S. Intermediate Treasuries	0.5	2.8
U.S. Long Treasuries	0.5	6.7
U.S. TIPS	0.1	3.5
Corporate IG Bonds	0.8	4.3
High-Yield Bonds	1.0	4.6
Tax-Exempt Bonds	-0.3	1.6

HEDGE STRATEGIES

Macro and relative value arbitrage were the only strategies to generate a positive return. After surprises in rates markets led to losses last month, macro managers returned to profitability with their fundamental views. Relative value strategies took advantage of mean reversion in an environment of falling volatility. Equity alpha was disrupted by earnings surprises as equity market neutral lost money and equity hedge did not appear to beat its market exposure. The VIX declined to a level last seen prior to the rate hiking cycle.

	Month (%)	YTD (%)
Equity Hedge	0.4	1.2
Equity Market Neutral	-0.1	-0.4
Event Driven	-0.5	-0.7
Relative Value Arbitrage	0.2	1.4
Macro	1.3	-1.2
Volatility Index (VIX = 15.78)	-15.6	-27.2

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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