

GREY COURT

Capital Market

Flash Report

US EQUITY

Small caps extended last month's outstanding rebound led by value-oriented companies in financial services and a sizable gain in the energy sector, both of which were also strong in the large cap market. Defensive sectors such as utilities and healthcare had the weakest performance while cyclical sectors, such as consumer discretionary, performed well amid booming summer travel and higher than expected retail sales. Growth continues to beat value this year as the tech sector added to its gains.

	Month (%)	YTD (%)
S&P 500	3.2	20.6
Russell 1000	3.4	20.7
Russell 1000 Value	3.5	8.8
Russell 1000 Growth	3.4	33.4
Russell 2000	6.1	14.7
Russell 2000 Value	7.5	10.2
Russell 2000 Growth	4.7	18.9

CURRENCIES

A widespread view that the Fed is nearing its final rate hike, or is already there, led to weakness in the US dollar. The yen appreciated as holders of the dollar-yen carry trade (long US dollar/short yen) took profits ahead of the risk that inflation pressure in Japan may lead to hawkish moves by the Bank of Japan (BOJ). This reversed a bit by month end as BOJ policy became clear. EM currencies in Latin America performed well with high carry. The Canadian dollar benefited from a strong energy market.

	Month (%)	YTD (%)
US Dollar	-1.0	-1.6
Euro	0.8	2.7
Yen	1.4	-7.9
Emerging Markets ¹	1.6	2.6
Canadian Dollar	0.4	2.8
Bitcoin	-3.9	76.2

NON-US EQUITY

Europe and Japan nearly kept up with the US large caps despite aggressive rate hikes in Europe with their effort to curb sticky inflation. Equities surged back into positive territory for the year in China as the government announced a spate of stimulus measures amid falling prices, weakening demand, growing unemployment, and declining exports. Chinese, Japanese and South Korean companies have also been large beneficiaries of legislation in the US designed to support the expansion of US clean-energy industries.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	4.1	14.4
MSCI EAFE	3.2	15.8
MSCI Europe	3.1	17.7
MSCI Japan	3.0	16.7
MSCI Emerging Markets	6.3	11.7
MSCI China	10.9	4.9
MSCI Emerging ex-China	4.4	15.0

REAL ASSETS

Real assets rallied from the start of the month led by energy after Saudi Arabia announced cutbacks in oil output to boost prices. Real estate also rallied, notably led by a rebound in the commercial office segment after the Fed and other regulators worked to improve commercial loan flexibility with banks. Industrial metals gained with stimulus from China reigniting hopes for increased manufacturing demand. Gold gained as a safe haven with lower forward-looking competition from higher rates in short-term Treasuries.

	Month (%)	YTD (%)
Commodities ²	6.3	-2.0
Energy	11.9	-10.4
Industrial Metals	6.9	-6.3
Gold	2.6	8.1
Master Limited Partnerships ³	6.0	16.2
Real Estate Investment Trusts ⁴	2.9	8.5

FIXED INCOME

Short- and long-term rates rose with the Fed announcing another quarter point hike to reduce inflation and projections of eventual policy easing led to an upward shift in the long end of the curve. Long dated Treasuries faced the strongest price declines while higher coupons helped offset losses from rising rates broadly. High yield securities caught a tailwind from the equity market rally while investment grade bonds shared in the positive sentiment. Tax-exempt bonds appreciated with tight supply and strong reinvestment flows.

	Month (%)	YTD (%)
U.S. Aggregate	-0.1	2.0
U.S. Intermediate Treasuries	0.1	1.2
U.S. Long Treasuries	-2.2	1.5
U.S. TIPS	0.1	2.0
Corporate IG Bonds	0.3	3.6
High-Yield Bonds	1.4	6.8
Tax-Exempt Bonds	0.3	1.8

HEDGE STRATEGIES

A favorable court ruling in the Microsoft-Activision deal supported merger arbitrage trades after eighteen months in limbo, providing a positive signal for M&A activity overall. Equity managers covered short positions in the face of the market rally as equity hedge benefited from some market exposure. Macro managers grappled with big moves in the energy market and a reversal in the yen. Positive sentiment kept a lid on the Volatility Index (VIX) while dampened volatility allowed relative value trades room to profit.

	Month (%)	YTD (%)
Equity Hedge	0.6	3.6
Equity Market Neutral	-0.5	0.4
Event Driven	0.7	-2.3
Relative Value Arbitrage	0.8	3.0
Macro	-1.1	-0.8
Volatility Index (VIX = 13.63)	0.3	-37.1

Data Source: Bloomberg. MSCI returns are gross USD. Currency returns are Simple Price Appreciation (SPA) USD basis. Fixed Income reported on Bloomberg 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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