GREYCOURT

Capital Market Flash Report

August 2023 August brought back a taste of 2022 as both equities and fixed income markets fell with mixed economic data and rising interest rates. Fitch became the second rating agency to downgrade the United States credit rating (from AAA to AA+) citing a high and growing debt burden. Powell maintained his hawkish outlook in Jackson Hole although he acknowledged monetary policy works with a lag, indicating the rate hike cycle may be nearing a peak. Continued economic woes in China added downward pressure on markets.

US EQUITY

Large caps fell less than small caps with renewed economic uncertainty and concerns for the availability of credit. Large cap growth was the most resilient supported by the health care sector and strong earnings from chipmakers. Value stocks came under pressure after S&P Global downgraded credit ratings on several mid-sized banks. The energy sector was the sole positive contributor with another strong month for energy commodities. Markets rose into month end with signs of an easing labor market, partially recouping losses.

	Month (%)	YTD (%)
S&P 500	-1.6	18.7
Russell 1000	-1.7	18.6
Russell 1000 Value	-2.7	5.9
Russell 1000 Growth	-0.9	32.2
Russell 2000	-5.0	9.0
Russell 2000 Value	-4.8	4.9
Russell 2000 Growth	-5.2	12.7

NON-US EQUITY

Persistent inflation and flat economic growth in Europe led markets lower as the region grappled with potential lingering stagflation. Weakness in China was felt in both Japan and Europe as China fell into deflation and faced falling exports. EAFE's value tilt was also a relative drag on performance. The weak sentiment in China led to broader declines in the Asia-Pacific region, and adding further pressure, the United States ordered a ban on certain investments by US companies in China with ongoing geopolitical tension.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	-4.5	9.2
MSCI EAFE	-3.8	11.3
MSCI Europe	-4.0	13.1
MSCI Japan	-2.4	13.8
MSCI Emerging Markets	-6.1	4.9
MSCI China	-9.0	-4.5
MSCI Emerging ex-China	-4.9	9.4

FIXED INCOME

Despite declining inflation expectations, long-term rates moved higher as the 10-year Treasury yield reached a peak of 4.34%, edging past the previous cycle high of 4.25% set last October. While rates eventually eased, duration was generally a drag on performance and long-term Treasuries were driven into losses year-to-date. Indexes with broader maturities faced smaller losses as short- and mid-term rates were relatively stable. Large coupons supported high yield bonds and provided a small positive gain for the month.

	Month (%)	YTD (%)
U.S. Aggregate	-0.6	1.4
U.S. Intermediate Treasuries	0.0	1.3
U.S. Long Treasuries	-2.8	-1.4
U.S. TIPS	-0.9	1.1
Corporate IG Bonds	-0.8	2.8
High-Yield Bonds	0.3	7.1
Tax-Exempt Bonds	-0.8	1.0

CURRENCIES

The US dollar strengthened with a persistently hawkish Fed and a relatively strong domestic economy. The yen weakened, almost retesting its 32-year low reached last October, as Japan remains uniquely committed to keeping low interest rates. The euro fell as poor economic data challenged the policy implications of additional rate hikes. In addition to economic concerns in China, Mexico's central bank announced the end of a currency hedging program that led to a decline in the peso and the overall EM currency index.

	Month (%)	YTD (%)
US Dollar	1.7	0.1
Euro	-1.4	1.3
Yen	-2.2	-9.9
Emerging Markets[1]	-1.5	1.0
Canadian Dollar	-2.3	0.3
Bitcoin	-10.9	56.8

REAL ASSETS

A tightening oil market and summer cooling demand for natural gas drove solid gains in energy. Despite efforts in energy transition and China's lackluster rebound, oil demand is on track to reach its highest level ever in 2023 while OPEC+ maintains production cuts. The strong demand and high volumes supported gains in MLP's. Industrial metals declined with concerns for global economic growth, particularly in China, while REIT's fell with ongoing concerns for the impact of higher rates and commercial sector weaknesses.

	Month (%)	YTD (%)
Commodities[2]	-0.8	-2.8
Energy	2.4	-8.3
Industrial Metals	-4.7	-10.7
Gold	-1.7	6.3
Master Limited Partnerships[3]	0.5	16.8
Real Estate Investment Trusts[4]	-3.0	5.2

HEDGE STRATEGIES

Excess returns in equity markets were positive in what has been a challenging year. Equity hedge generated gains despite its market exposure while equity market neutral benefited from isolated alpha generation. Event driven had the strongest return as consolidation in the oil industry added to deal flow. Relative value arbitrage declined as opportunities for mean reversion in markets remained elusive, while currency and commodity markets offered gains in macro. The VIX remained subdued despite market declines.

	Month (%)	YTD (%)
Equity Hedge	0.2	3.9
Equity Market Neutral	0.7	1.0
Event Driven	1.1	-1.0
Relative Value Arbitrage	-0.2	2.9
Macro	0.3	-0.5
Volatility Index (VIX = 13.57)	-0.4	-37.4

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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