

GREYCOURT Capital Market Flash Report

US EQUITY

It was an August Jam for US stocks. The S&P 500 hit a record high before closing the month slightly lower. Mega cap tech stocks dominated returns as increased spending encouraged investors to push consumer discretionary stocks up almost 13% for the month. Cyclical sectors outperformed defensive sectors, and growth trounced value. Predictably, investors rewarded growth, momentum, quality, and high beta exposures. The Russell 2000 and microcap indices outpaced the less risky S&P 600 Small Cap Index.

	Month (%)	YTD (%)
S&P 500	7.2	9.7
Russell 1000	7.3	10.4
Russell 1000 Value	4.1	-9.3
Russell 1000 Growth	10.3	30.5
Russell 2000	5.6	-5.5
Russell 2000 Value	5.4	-17.7
Russell 2000 Growth	5.9	6.2

CURRENCIES

Expectations for relative growth, inflation, and declining real yields weakened the US dollar against the euro as investors reacted to reports of higher COVID-19 infection rates in the US and an uncertain and volatile pre-election environment. The US dollar spiked when the pandemic first hit but has declined by over 10% since late March. Emerging markets currencies improved against the US dollar during the month, benefitting from increased growth expectations and higher commodity prices.

	Month (%)	YTD (%)
US Dollar	-1.3	-4.4
Euro	1.3	6.4
Yen	-0.1	2.6
Emerging Markets ¹	0.9	-2.4

August 2020 Coordinated fiscal and monetary policy is powerful and working. Injecting trillions of dollars into the US economy has driven stocks and risky assets sky-high since the market bottomed on March 23rd. The recession ended after only two months with economic data flashing “V” for the last three months. Consumers are purchasing goods *and* services while stocks, credit, economically sensitive commodities, and inflation-linked investments surge. And there’s ample liquidity to fuel this run up for several more months.

NON-US EQUITY

Non-US stocks performed very well on a local currency basis and even better on a US dollar basis as the US dollar sank over the month. Stock returns in Japan were flustered by the sudden resignation of PM Shinzo Abe, yet finished strong by the close of the month. Europe delivered excellent returns as manufacturing growth accelerated. Almost all countries were up, and smaller cap stocks outperformed larger stocks. The BRICs drove emerging markets returns, as Latin America struggled to contain the coronavirus.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	4.3	-2.7
MSCI EAFE	5.2	-4.3
MSCI Europe	4.1	-5.3
MSCI Japan	7.6	-1.4
MSCI Emerging Markets	2.2	0.7
MSCI BRIC Index	3.7	5.3

REAL ASSETS

Commodity prices enjoyed a substantial monthly run as global growth and a weaker US dollar boosted demand. Energy prices rebounded with natural gas prices increasing by almost 35% in the aftermath of hurricane Laura and tropical storm Marco. Following close behind were industrial metals, including copper, that were aided by improving global demand. Gold prices took a breath after a strong year. REITs experienced modest gains on lower interest rates. Midstream energy was up 2.3% as MLPs generally were flat.

	Month (%)	YTD (%)
Commodities ²	6.8	-9.0
Energy	13.1	-38.0
Industrial Metals	6.9	4.8
Gold	-0.4	26.7
Master Limited Partnerships ³	0.5	-37.7
Real Estate Investment Trusts ⁴	0.8	-14.8

FIXED INCOME

The Fed’s expanded inflation targeting policy announced at Jackson Hole drove Treasuries to their worst month in almost four years. In response, investors favored high-yield credits over rates and investment grade bonds. TIPS had a great month, even as breakeven levels and inflation swaps remain below the prior 2% inflation target. Long-duration municipals outperformed most municipal bonds. The broad municipal market declined, however, as investors wait for post-summer new issuance to wrangle better yields.

	Month (%)	YTD (%)
U.S. Intermediate Treasuries	-0.2	5.9
U.S. Long Treasuries	-4.3	20.9
U.S. TIPS	1.1	9.6
Corporate IG Bonds	-1.4	6.0
High-Yield Bonds	1.0	1.7
Tax-Exempt Bonds	-0.5	3.3

HEDGE STRATEGIES

Directional and market neutral equity managers posted good returns as they tried to recoup year-to-date losses. While August reflected the most net buying by hedge funds since February, many managers maintained short positions against technology stocks which constrained overall returns. Strong earnings and merger activity such as 7-Eleven’s acquisition of Speedway and a potential sale of TikTok’s US operations helped event-driven strategies. Relative value managers took advantage of moves in rates and credit.

	Month (%)	YTD (%)
Equity Hedge	2.6	-3.1
Equity Market Neutral	0.6	-6.1
Event Driven	1.5	4.1
Relative Value Arbitrage	1.0	4.2
Macro	0.1	1.1