GREYCOURT

Capital Market Flash Report

June 2021 Investors continue to face high valuations while policy makers continue to apply unprecedented economic support through fiscal and monetary stimulus. Inflation fears were supported by a high CPI reading, signs of a tight labor market, and producer bottlenecks. However, we continue to expect inflation to normalize as base effects from 2020 dissipate, and the invisible hand relieves supply constraints. Pricing, policy, and fear aside, the surge in capital expenditures should support the ongoing economic rebound.

US EQUITY

Higher than expected inflation data and policy uncertainty disrupted the market's otherwise calm June. Fears subsided as the Fed stressed a commitment to easy monetary policy. Combined with a strengthening job market, broad indices reversed course, posting a fifth consecutive monthly gain. Market sentiment abruptly switched from value-based reopening trades back into growth, especially tech. Clean stress tests and record investment banking activity did not help financials which lagged on the month.

	Month (%)	YTD (%)
S&P 500	2.3	15.3
Russell 1000	2.5	15.0
Russell 1000 Value	-1.1	17.0
Russell 1000 Growth	6.3	13.0
Russell 2000	1.9	17.5
Russell 2000 Value	-0.6	26.7
Russell 2000 Growth	4.7	9.0

NON-US EQUITY

Despite continued COVID woes, international markets posted moderate, positive local currency returns. Increased vaccine access strengthened optimism in developed Europe. Japanese markets grappled with declining production caused by the global chip shortage. Mirroring stateside trends, international investors preferred growth over value. BRIC nations contributed to EM returns despite viral hotspots in Brazil and India. A strengthening dollar lowered returns for US investors, ultimately generating losses in EAFE.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	-0.6	9.4
MSCI EAFE	-1.1	9.2
MSCI Europe	-1.3	12.3
MSCI Japan	-0.3	1.5
MSCI Emerging Markets	0.2	7.6
MSCI BRIC Index	0.7	5.4

FIXED INCOME

It was a volatile month for treasuries as investors traded around economic data and guidance on Fed policy. Markets continued to struggle in their attempts to gauge when the Fed will begin to taper. Yields steadied as bets on a steeper curve were unwound. Investment grade bonds continued to recover from their March low. Junk bonds had another positive month with the ongoing search for yield. Munis benefited from rising expectations of increased infrastructure spending and the growing likelihood of tax hikes.

	Month (%)	YTD (%)
U.S. Intermediate Treasuries	-0.1	-1.1
U.S. Long Treasuries	3.6	-7.9
U.S. TIPS	0.6	1.7
Corporate IG Bonds	1.6	-1.6
High-Yield Bonds	1.3	3.6
Tax-Exempt Bonds	0.3	1.1

CURRENCIES

An unexpected hawkish pivot in the Fed's plan for future rate hikes sent turmoil across currency markets and led the dollar to its best monthly performance since 2016. All major trading pairs were negative versus the dollar as increasing foreign purchases of US treasuries provided fundamental support. The renminbi's decline was amplified by the PBOC raising required foreign exchange reserves to 7% of deposits. Despite increasing energy prices, commodity currencies could not overcome the dollar's strength.

	Month (%)	YTD (%)
US Dollar	2.9	2.8
Euro	-3.0	-2.9
Yen	-1.4	-7.0
Emerging Markets[1]	-1.0	1.0
Canadian Dollar	-2.7	2.7

REAL ASSETS

Real assets were mixed for the month. Oil prices reached a two-year high as OPEC and Russia held supply steady while increasing travel and shipping drove global demand. Industrial metals declined following the announcement that China will begin selling off state stockpiles as they look to stabilize prices. A strengthening US dollar led to a selloff in precious metal markets resulting in the worst month for gold in almost five years. REITs posted their eighth consecutive monthly gain as demand for property continues to increase.

	Month (%)	YTD (%)
Commodities[2]	1.9	21.1
Energy	11.4	44.6
Industrial Metals	-3.2	17.6
Gold	-7.0	-7.0
Master Limited Partnerships[3]	5.2	47.8
Real Estate Investment Trusts[4]	2.7	21.8

HEDGE STRATEGIES

Equity hedge led the way while equity market neutral managers declined. Retail investors coordinating online continue to challenge high short interest positions, while easy credit is also unhelpful. Funds with new risk tools and smaller sized short positions may survive and thrive. Event driven managers eked out slight gains with strong capital market activity, but it will take time for spreads to close across recent M&A deals. Macro managers lost money attempting to triangulate across inflation, the Fed, and a strong US dollar.

	Month (%)	YTD (%)
Equity Hedge	1.3	8.0
Equity Market Neutral	-0.8	2.6
Event Driven	0.1	3.4
Relative Value Arbitrage	0.3	0.9
Macro	-0.5	1.7

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.