

GREY COURT

Capital Market Flash Report

June 2022 Market sentiment fluctuated across capital markets amid restrictive Fed policy and growing fears that a recession may be looming. Powell's testimony pared losses initially; however, the hard-fought gains attained during a shortened trading week were given up as worrisome economic data arrived into month end. June closed out the worst first half-year for equities since 1970 where rare positive returns could be found in China's delayed COVID rebound, macro trading, and anything leveraged to a strong US dollar.

US EQUITY

US markets opened the month looking to build on May's mildly bullish outcome. However, as has been the case recently, inflation data sent equities into freefall. The bottom was found after the Fed raised rates by 0.75% for the first time since 1994 and—in testimony before congress—maintained their aggressive stance toward combatting inflation. Led by materials and energy—which suffered from the collapse in commodity prices—all 11 sectors of the S&P 500 closed June well into the red.

	Month (%)	YTD (%)
S&P 500	-8.3	-20.0
Russell 1000	-8.4	-20.9
Russell 1000 Value	-8.7	-12.9
Russell 1000 Growth	-7.9	-28.1
Russell 2000	-8.2	-23.4
Russell 2000 Value	-9.9	-17.3
Russell 2000 Growth	-6.2	-29.5

NON-US EQUITY

International markets generally provided no respite for those looking to escape the selloff stateside. The eurozone provided the largest headwind for developed markets as an energy crunch and the highest inflation on record led the ECB to announce their plan to raise rates for the first time in 11 years. Onshore losses in Japan were comparatively better but the freefalling yen magnified losses on a USD basis. The only hope for investors was found in China where a relaxing stance on COVID and easing regulations, renewed growth prospects.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	-8.6	-18.2
MSCI EAFE	-9.3	-19.3
MSCI Europe	-9.9	-20.4
MSCI Japan	-7.9	-20.1
MSCI Emerging Markets	-6.6	-17.5
MSCI China	6.6	-11.2
MSCI Emerging ex-China	-12.5	-20.6

FIXED INCOME

Classic 60/40 diversification stumbled as yields rose across the board with no real confirmation that we have reached a peak in inflation. However, like their equity counterparts, fixed income vehicles closed off their lows, except for junk bonds which suffered from the perception of higher default risk. Investment grade also fell, underlining the market's fears that macroeconomic factors may continue to deteriorate. Meanwhile, long dated treasuries staged an impressive rally to close 4.7% above the mid-month low.

	Month (%)	YTD (%)
U.S. Intermediate Treasuries	-0.7	-5.8
U.S. Long Treasuries	-1.5	-21.3
U.S. TIPS	-3.2	-8.9
Corporate IG Bonds	-3.1	-15.4
High-Yield Bonds	-6.7	-14.2
Tax-Exempt Bonds	-1.6	-9.0

CURRENCIES

The greenback continued to strengthen setting a 19-year high during the month's final trading session. An emergency meeting of the European Central Bank stabilized the euro as it moves closer to parity with the US Dollar. Across the Pacific, the Bank of Japan remains the only central bank of a major economy to maintain an easy policy stance sending the yen tumbling to a 24 year low versus the dollar. Meanwhile, last year's interest in cryptocurrencies has all but evaporated as the once hot asset continues to plummet.

	Month (%)	YTD (%)
US Dollar	2.9	9.4
Euro	-2.3	-7.8
Yen	-5.2	-15.2
Emerging Markets ¹	-2.2	-3.9
Canadian Dollar	-1.7	-1.8
Bitcoin	-41.1	-59.6

REAL ASSETS

Elevated prices accompanied by signs of waning growth drove commodities downward marking an end to the bull run originating from economic reopening's. Industrial metal prices collapsed, turning negative on the year. Energy prices fell following OPEC's increasing commitments to raise production. REITs—already facing headwinds from rising rates—continued their freefall as the housing market appears to be cooling off and demand for office space shows little sign of returning to pre-COVID levels.

	Month (%)	YTD (%)
Commodities ²	-10.8	18.4
Energy	-14.6	58.3
Industrial Metals	-16.0	-9.6
Gold	-2.1	-1.5
Master Limited Partnerships ³	-14.0	10.0
Real Estate Investment Trusts ⁴	-7.4	-20.3

HEDGE STRATEGIES

Equity hedge limited losses benefiting from defensive positioning while strong factor rotations disrupted equity market neutral strategies. Rising rates, and uncertainty surrounding the path of future hikes, hampered event driven funds. Macro managers continued to profit from rates trading in the persistent inflationary environment with additional opportunities from volatility in the commodities market. The VIX spiked following May's CPI report and remained elevated into the month end, never fully settling down.

	Month (%)	YTD (%)
Equity Hedge	-1.6	-4.3
Equity Market Neutral	-3.0	-2.2
Event Driven	-1.8	-6.0
Relative Value Arbitrage	-3.0	-9.0
Macro	1.6	3.5
Volatility Index (VIX)	9.6	66.7

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