

GREY COURT

Capital Market Flash Report

US EQUITY

After closing the first half of the year in the worst drawdown since 1970, markets responded with their best month since November 2020. As earnings reports trended positive, high inflation, contracting GDP and a 0.75% rate-hike—all factors which have been a drag since the start of the year—were ignored, and all 11 sectors of the S&P 500 finished in the green. Growth performed the best across all sizes led by a legislative effort to spur domestic chip production bolstering tech firms who have performed poorly thus far.

	Month (%)	YTD (%)
S&P 500	9.2	-12.6
Russell 1000	9.3	-13.6
Russell 1000 Value	6.6	-7.1
Russell 1000 Growth	12.0	-19.4
Russell 2000	10.4	-15.4
Russell 2000 Value	9.7	-9.3
Russell 2000 Growth	11.2	-21.6

CURRENCIES

Closing off its highs for the month, the US dollar continued to strengthen on the year against its trading partners. Most notably, the greenback reached parity with the euro for the first time in 20 years as persistent energy woes in the region were amplified by a record-breaking heatwave. In contrast, the yen strengthened as inflation may have leveled off in Japan; however, weak fundamentals persist as the BoJ remains the only developed central bank that has yet to raise interest rates.

	Month (%)	YTD (%)
US Dollar	1.2	10.7
Euro	-2.5	-10.1
Yen	1.8	-13.6
Emerging Markets ¹	-0.3	-4.2
Canadian Dollar	0.6	-1.2
Bitcoin	27.9	-48.3

July 2022 Developed equity markets surged past high inflation and contracting GDP as if assuming the worst news is priced in and the battle against inflation is headed in the right direction. Mixed results among early earnings reports did not stop rebounding markets. China uniquely weakened on growth concerns and the ongoing issues in their real estate market, bringing the emerging markets index into negative territory. Meanwhile yields compressed in intermediate to longer dated treasuries, supporting fixed income markets.

NON-US EQUITY

Broadly, international markets were positive in June where—despite some stiff headwinds—developed markets moved upward. China, on the other hand, continued its decline following the announcement that the economy will miss its annual growth goals as a result of the nation's zero-COVID policy. Following the Evergrande crisis last year, Beijing has begun to implement sweeping reforms to keep the real estate market afloat and support their broader economy by listing dozens of ETFs in cross-border trading links.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	3.5	-15.3
MSCI EAFE	5.0	-15.2
MSCI Europe	5.0	-16.4
MSCI Japan	5.7	-15.5
MSCI Emerging Markets	-0.2	-17.6
MSCI China	-9.4	-19.6
MSCI Emerging ex-China	4.9	-16.7

REAL ASSETS

Energy was the best performer on the month despite oil falling below \$100/barrel as high prices and production increase commitments from OPEC balanced aggregate demand. Natural gas surged over 50% as a reduction of inflows into Europe drove prices higher leading EU member states to commit to a 15% cut in consumption. MLPs moved in line with the broader energy market. Industrial metals—which were down over 10% mid-month—ended positive as rising costs and inventory concerns pushed prices higher.

	Month (%)	YTD (%)
Commodities ²	4.3	23.5
Energy	12.4	77.9
Industrial Metals	1.6	-8.1
Gold	-2.3	-3.8
Master Limited Partnerships ³	12.5	23.8
Real Estate Investment Trusts ⁴	9.0	-13.1

FIXED INCOME

Fueled by record low default rates and a return of optimistic sentiment in equity markets, high yield bonds led the credit rally in July. Longer dated Treasuries outperformed intermediate dated bills increasing yield curve inversion. Municipal bonds had their best month in over two years bucking a trend of tepid to negative performance as many states and municipalities reported unprecedented budget surpluses all but eliminating default fears in the event of economic contraction.

	Month (%)	YTD (%)
U.S. Intermediate Treasuries	1.3	-4.5
U.S. Long Treasuries	2.7	-19.2
U.S. TIPS	4.4	-5.0
Corporate IG Bonds	3.0	-12.8
High-Yield Bonds	5.9	-9.1
Tax-Exempt Bonds	2.6	-6.6

HEDGE STRATEGIES

Equity hedge and equity market neutral generated positive returns in an improved environment for selection and factor rotations relative to earlier in the year. Facing ongoing headwinds in M&A activity, event driven managers were unable to profit from the broader market rally. Relative value arbitrage benefited from trading rates and mortgage markets. Macro was challenged by a relentlessly strong dollar and shifts in commodities markets. Meanwhile, volatility cratered despite another strong inflation report and a steep rate hike.

	Month (%)	YTD (%)
Equity Hedge	1.0	-3.8
Equity Market Neutral	0.7	-1.7
Event Driven	-0.3	-6.5
Relative Value Arbitrage	1.8	-7.5
Macro	-1.2	2.1
Volatility Index (VIX)	-25.7	23.9

Disclosures

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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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