

GREYCOURT Capital Market Flash Report

US EQUITY

US equities had broadly strong positive returns, which is unique for this year. Small caps outperformed large caps for the first time since February with the highest consumer sentiment in four months. The consumer discretionary sector supported large cap markets with robust demand for cruise line travel and new cars. Technology also continued to deliver strong returns with Apple becoming the first company to achieve a \$3 trillion market cap. All sectors posted gains apart from small cap utilities.

	Month (%)	YTD (%)
S&P 500	6.6	16.9
Russell 1000	6.8	16.7
Russell 1000 Value	6.6	5.1
Russell 1000 Growth	6.8	29.0
Russell 2000	8.1	8.1
Russell 2000 Value	7.9	2.5
Russell 2000 Growth	8.3	13.6

CURRENCIES

The greenback showed signs of weakness with evidence of a cooling job market and anticipation of sticky core inflation. The euro and the loonie strengthened against the dollar as the ECB and the Bank of Canada raised rates in contrast with the pause in the United States. Japan kept its low policy rate at -0.1%, and maintained a cap on 10-year rates, which led to a significant slide in the yen. In China, the yuan followed a similar decline (2%) after poor economic data prompted the Peoples Bank of China to cut rates.

	Month (%)	YTD (%)
US Dollar	-1.4	-0.6
Euro	2.1	1.9
Yen	-3.3	-9.1
Emerging Markets ¹	0.3	0.9
Canadian Dollar	2.5	2.4
Bitcoin	12.5	83.1

June 2023 Bullish sentiment flourished with a resolution of the debt ceiling, declining concern for regional banks, excitement for the potential productivity gains from artificial intelligence, and eventually a pause in rate hikes from the Fed. Equity markets surged, breezing by economic concerns in China, declining excess savings, tightening credit conditions, and broadly declining earnings. Intermediate and long-term rates rose as expectations for a hard landing subsided, which weighed against the collection of higher coupons.

NON-US EQUITY

Developed markets delivered strong gains despite concerns for growth and ongoing rate hikes in Europe. Japan outpaced the US on a local currency basis, but a weak yen held back US dollar-based returns. Emerging markets gained as a group as Eastern Europe and Latin America appreciated about 10% each, and EM Asia ex-China lagged. China participated in the bull market despite its economic recovery showing cracks as the government announced tax breaks for electric vehicle purchases to encourage demand.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	4.5	9.9
MSCI EAFE	4.6	12.1
MSCI Europe	4.8	14.2
MSCI Japan	4.1	13.2
MSCI Emerging Markets	3.9	5.1
MSCI China	4.0	-5.4
MSCI Emerging ex-China	3.8	10.1

REAL ASSETS

Natural gas prices rose with hot weather driving electricity demand while crude oil was relatively flat. MLPs and REITs gained alongside equity markets but continue to be held back by concerns regarding the higher cost of debt, and issues in the commercial real estate market. Copper rose slightly, after falling this year, as demand from the green energy market provided support; substitution from other materials is a potential longer-term risk. Gold lost some luster as a safe haven with declining concern regarding the banking sector.

	Month (%)	YTD (%)
Commodities ²	4.0	-7.8
Energy	8.4	-20.0
Industrial Metals	1.1	-12.4
Gold	-2.2	5.4
Master Limited Partnerships ³	4.1	9.7
Real Estate Investment Trusts ⁴	5.0	5.5

FIXED INCOME

Intermediate yields rose, followed by long term yields, with the perception that the Fed would keep rates higher for longer. Some short-term yields declined despite the increase in issuance of Treasury bills after the debt ceiling was suspended. Corporate bonds gained with strong coupons while high yield bonds participated in the bullish sentiment. Municipal bonds had solid gains with strong investment inflows including reinvestment of both coupons and proceeds from bond redemptions, with limited new issues.

	Month (%)	YTD (%)
U.S. Aggregate	-0.4	2.1
U.S. Intermediate Treasuries	-0.9	1.1
U.S. Long Treasuries	0.0	3.7
U.S. TIPS	-0.3	1.9
Corporate IG Bonds	0.4	3.2
High-Yield Bonds	1.7	5.4
Tax-Exempt Bonds	0.7	1.5

HEDGE STRATEGIES

A decline in systematic risk from the US debt market and the banking sector led to a precipitous decline in volatility. This allowed for positive performance in hedge strategies in what has been a relatively tough year for alpha generation. Equity market neutral led the way as security pricing had more room to react to idiosyncratic risk. Event driven had its first positive return since January. While M&A activity is down sharply versus 2022, the second quarter marked an uptick as the decline in volatility provided support.

	Month (%)	YTD (%)
Equity Hedge	1.0	2.7
Equity Market Neutral	1.2	0.9
Event Driven	0.4	-3.0
Relative Value Arbitrage	0.7	2.1
Macro	0.3	0.0
Volatility Index (VIX = 13.59)	-24.2	-37.3

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