GREYCOURT

Capital Market Flash Report

September 2023 Equity and fixed income markets fell together for the second month in a row alongside modest signs of declining core inflation. The Fed held off on another rate hike but warned the fight against inflation is not over and indicated that rates may stay higher for longer, while leaving another rate hike on the table. Consumer confidence dropped amid a rise in oil prices and the federal government faced a potential shutdown until a temporary solution passed after the final day of trading, leaving a cloudy end to the quarter.

US EQUITY

The momentum for the "Magnificent Seven" faded as all but one of the tech related stocks (Meta Platforms) generated losses for the month. Three of the companies (Nvidia, Apple, and Amazon) lost considerably more than the S&P 500 as the rally around artificial intelligence continued to cool off. Value was moderately defensive relative to growth, as was large cap relative to small cap. Like last month, all sectors generated negative returns except energy, which benefited from climbing oil prices.

	Month (%)	YTD (%)
S&P 500	-4.8	13.1
Russell 1000	-4.7	13.0
Russell 1000 Value	-3.9	1.8
Russell 1000 Growth	-5.4	25.0
Russell 2000	-5.9	2.5
Russell 2000 Value	-5.2	-0.5
Russell 2000 Growth	-6.6	5.2

NON-US EQUITY

International markets, while down, generally fared better than domestic markets, after not fully participating in the tech-related rally earlier in the year. Japan had the smallest loss as the government maintains easy monetary policy and reforms continue in corporate governance. The rally in energy supported UK-listed majors and Norwegian exporters. The decline in global trade related to geopolitical tensions with China, and China's own domestic economic challenges, also held back returns for developed and emerging markets.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	-3.1	5.8
MSCI EAFE	-3.4	7.6
MSCI Europe	-4.0	8.6
MSCI Japan	-2.0	11.6
MSCI Emerging Markets	-2.6	2.2
MSCI China	-2.7	-7.1
MSCI Emerging ex-China	-2.5	6.6

FIXED INCOME

Resilient economic growth and robust bond issuance led to an upswing in the mid to long end of the Treasury yield curve where 10-year and 30-year rates rose by about a half a percentage point. This generated broad losses, particularly in long duration bonds where long-term Treasuries have a substantial decline year-to-date after last year's drop of 29.3%. Tax-exempt bonds now have a small loss year-to-date but are attractive relative to Treasuries. High yield bonds fell with the decline in both fixed income and equity markets.

	Month (%)	YTD (%)
U.S. Aggregate	-2.5	-1.2
U.S. Intermediate Treasuries	-1.0	0.3
U.S. Long Treasuries	-7.3	-8.6
U.S. TIPS	-1.8	-0.8
Corporate IG Bonds	-2.7	0.0
High-Yield Bonds	-1.2	5.9
Tax-Exempt Bonds	-1.8	-0.8

CURRENCIES

The US dollar continued to appreciate as the Fed indicated higher rates for longer, backed by a relatively strong domestic economy. The yen weakened as the Bank of Japan left its interest rate targets unchanged and the gap between US and Japanese rates expanded to a 22-year high. The euro fell as purchasing manager indexes (PMI's) revealed further economic weakness. The Chinese renminbi fell near a 16-year low dragging down the EM index as the country maintained accommodative rates and faced headwinds in real estate debt.

	Month (%)	YTD (%)
US Dollar	2.5	2.6
Euro	-2.5	-1.2
Yen	-2.6	-12.2
Emerging Markets[1]	-0.5	0.5
Canadian Dollar	-0.5	-0.2
Bitcoin	4.1	63.3

REAL ASSETS

Energy was a bright spot for commodities as tight global supply and durable demand for crude oil provided upward price pressure. Meanwhile gold and broader precious metals, as well as agricultural commodities, dragged the index down. MLP's had a small gain with strong energy demand supporting volumes alongside their defensive quality. Real estate investment trusts fell with the persistent higher cost of financing and competition from other relatively safer investment opportunities offering improved yields.

	Month (%)	YTD (%)
Commodities[2]	-0.7	-3.4
Energy	4.4	-4.3
Industrial Metals	1.6	-9.3
Gold	-4.7	1.3
Master Limited Partnerships[3]	3.2	20.6
Real Estate Investment Trusts[4]	-6.8	-1.9

HEDGE STRATEGIES

Equity hedge lost money with the market downdraft while equity market neutral generated strong alpha, notably on the short side, where many popular short positions had substantial declines in value. Event driven benefited from advancements toward deal closure in the well-followed Microsoft-Activision Blizzard deal, and from a pair of large acquisitions in the healthcare sector that marched closer to closure. Commodities, rates, and currency markets offered gains in macro. The VIX rose with the market downdraft.

	Month (%)	YTD (%)
Equity Hedge	-0.7	3.2
Equity Market Neutral	0.8	1.8
Event Driven	0.1	-0.9
Relative Value Arbitrage	-0.2	2.8
Macro	1.1	0.2
Volatility Index (VIX = 17.52)	29.1	-19.2

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

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