

GREYCOURT Capital Market Flash Report

January 2024 After embracing signs of a soft landing in December, markets adjusted to the notion that the Fed remains in no hurry to cut rates until the fight against inflation is more fully resolved. The month began with a strong jobs report and an uptick in the monthly consumer price index for December and ended with a soft employment cost index and the Fed offering no strong guidance for the first rate cut. Assets sensitive to longer term rates declined while some equities gained with a strong GDP report.

US EQUITY

Large cap equities gained on strong performance from both the information technology and communication services sectors as renewed interest in the evolving capabilities of artificial intelligence propelled growth over value. Further support came from healthcare with investors attracted to relatively low valuations. The outlook for an extended timeline for rate cuts was a drag on performance for real estate as well as small cap equities where technology was the only sector with (barely) positive performance.

	Month (%)	YTD (%)
S&P 500	1.7	1.7
Russell 1000	1.4	1.4
Russell 1000 Value	0.1	0.1
Russell 1000 Growth	2.5	2.5
Russell 2000	-3.9	-3.9
Russell 2000 Value	-4.5	-4.5
Russell 2000 Growth	-3.2	-3.2

CURRENCIES

The US dollar gained on relative changes in monetary policy. The market absorbed a longer path to rate cuts and a strong GDP report in the US, supporting the dollar, while the European Central Bank held rates steady, but the market projected faster rate cuts with struggling economic growth, weakening the euro. The Bank of Japan provided little clarity on when it may end its negative-rate policy and the market pushed out its expected timeline leading to a decline in the yen. EM currencies fell on renewed concerns for trade wars.

	Month (%)	YTD (%)
US Dollar	1.9	1.9
Euro	-2.0	-2.0
Yen	-4.0	-4.0
Emerging Markets ¹	-0.9	-0.9
Canadian Dollar	-1.4	-1.4
Bitcoin	1.2	1.2

NON-US EQUITY

International developed markets rose despite currency headwinds. Japan led with a new tax-saving investment program encouraging investment in domestic equities. Europe had mixed results as GDP contracted in Germany while expanding elsewhere. The sell-off in Chinese equities continued with concerns for both the economy and government policy. Chinese regulators expanded limits on short-selling and stemmed capital outflows by restricting access to offshore investment vehicles.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	-1.0	-1.0
MSCI EAFE	0.6	0.6
MSCI Europe	-0.1	-0.1
MSCI Japan	4.6	4.6
MSCI Emerging Markets	-4.6	-4.6
MSCI China	-10.6	-10.6
MSCI Emerging ex-China	-2.5	-2.5

REAL ASSETS

Commodities gained with support from energy outweighing weakness in metals and agriculture. Despite weakness in natural gas prices due to high storage levels, crude oil gained with the ongoing geopolitical risk in the Middle East. Industrial metals eased with an outlook for decelerating global growth. Master Limited Partnerships gained with strong inflows seeking attractive yields at reasonable valuations. Real estate investment trusts declined under pressure from higher rates and approaching debt maturities.

	Month (%)	YTD (%)
Commodities ²	0.4	0.4
Energy	2.8	2.8
Industrial Metals	-1.9	-1.9
Gold	-0.7	-0.7
Master Limited Partnerships ³	4.4	4.4
Real Estate Investment Trusts ⁴	-4.1	-4.1

FIXED INCOME

Performance was mixed in fixed income markets. Long-term Treasuries fared the worst while other markets with significant duration also declined. The mid and long end of the yield curve rose over the course of the month while a rally in rates over the last few days of the month was not enough to prevent losses. Higher coupons helped support shorter duration exposures while a modest increase in credit spreads late in the month left high-yield bonds flat. Municipal bonds continued to correct from a November rally.

	Month (%)	YTD (%)
U.S. Aggregate	-0.3	-0.3
U.S. Intermediate Treasuries	0.2	0.2
U.S. Long Treasuries	-2.2	-2.2
U.S. TIPS	0.2	0.2
Corporate IG Bonds	-0.2	-0.2
High-Yield Bonds	0.0	0.0
Tax-Exempt Bonds	-0.3	-0.3

HEDGE STRATEGIES

Equity hedge and market neutral strategies generated gains from fundamental investing as the market continued to grapple with systematic risk. Macro managers benefited from the correction in rates relative to the exuberance surrounding a soft landing in December, while movement in both energy and currencies offered substantial room for alpha. Equity volatility rose substantially over the course of the month, but from a depressed level following December's broad market rally.

	Month (%)	YTD (%)
Equity Hedge	0.9	0.9
Equity Market Neutral	1.2	1.2
Event Driven	0.0	0.0
Relative Value Arbitrage	-0.1	-0.1
Macro	0.9	0.9
Volatility Index (VIX = 14.35)	15.3	15.3

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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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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