GREYCOURT

Capital Market Flash Report

February 2024 The S&P 500 and the NASDAQ ended the month at record levels despite a higher-than-expected mid-month CPI report pushing out expectations for Fed rate cuts. Healthy reports for both earnings and economic growth as well as enthusiasm for the impact of artificial intelligence added a fourth month to the rally. Meanwhile, an end of the month PCE inflation report met expectations but added to the notion that rates may stay higher for longer leading to a significant rise in mid- and long-term rates.

US EQUITY

Advancements in artificial intelligence continued to drive gains. Nvidia led the pack with revenue and profit growth surpassing even its peers in the Magnificent Seven. Growth continued to beat value, but the rally broadened out as the Russell 1000 beat the S&P 500. Upside earnings surprises outpaced their five-year average while downside surprises were smaller. Small cap outperformed large cap with attractive valuations while utilities, real estate, staples, and energy were positive but trailed the market.

	Month (%)	YTD (%)
S&P 500	5.3	7.1
Russell 1000	5.4	6.9
Russell 1000 Value	3.7	3.8
Russell 1000 Growth	6.8	9.5
Russell 2000	5.7	1.5
Russell 2000 Value	3.3	-1.4
Russell 2000 Growth	8.1	-4.7

NON-US EQUITY

China roared on the back of strong investor inflows. However, it is worth noting that this includes an estimated $57 billion contribution from Chinese state-backed funds this year according to UBS. EM ex-China had a solid month and is now positive on the year. Japan's economy fell into a recession but that did not stop the Nikkei from reaching a new high for the first time since 1989, while US dollar returns were moderated by a weak yen. Europe was mixed with strength in Germany and weaker returns in the UK.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	2.5	1.5
MSCI EAFE	1.8	2.4
MSCI Europe	1.6	1.5
MSCI Japan	3.0	7.8
MSCI Emerging Markets	4.8	-0.1
MSCI China	8.4	-3.1
MSCI Emerging ex-China	3.6	1.0

FIXED INCOME

A strong jobs report and higher inflation reports forced investors to recalibrate expectations for Fed rate cuts. Rates rose across the yield curve, particularly from two to seven years in maturity. After a surge in value late last year, long-term Treasuries are again building significant losses. Mid-duration investment grade bonds had smaller losses as healthy coupons helped buffer their relative rate sensitivity. High yield benefited alongside the equity rally and municipal bonds maintained their richness relative to Treasuries.

	Month (%)	YTD (%)
U.S. Aggregate	-1.4	-1.7
U.S. Intermediate Treasuries	-1.1	-0.9
U.S. Long Treasuries	-2.3	-4.4
U.S. TIPS	-1.1	-0.9
Corporate IG Bonds	-1.5	-1.7
High-Yield Bonds	0.3	0.3
Tax-Exempt Bonds	0.1	-0.3

CURRENCIES

The US dollar continued its show of strength this year with moderating expectations for Fed rate cuts. The yen weakened as Japan's economy fell into recession, delaying any tightening in rate policy, and its rank among global economies fell to fourth place behind Germany. Moderating inflation in the Eurozone kept plans for easing rate policy on the table, weakening support for the euro. While we do not have a fundamental case for investing in cryptocurrencies, the launch of an ETF led to an exceptional Bitcoin rally.

	Month (%)	YTD (%)
US Dollar	0.9	2.8
Euro	-0.1	-2.1
Yen	-2.0	-6.0
Emerging Markets[1]	0.2	-0.7
Canadian Dollar	-1.1	-2.5
Bitcoin	44.7	46.5

REAL ASSETS

While crude oil rose with choppiness over the month the energy index fell with cratering natural gas prices. Industrial metals broadly declined with signs of international economic weakness, while gold softened with the narrative of higher for longer rates supporting a competitive yield in Treasuries. MLP's climbed past a ten-year peak with strong free cash flows. REITs gained alongside the rally in equity markets as the index has a limited exposure to the office segment where the Fed is increasing its scrutiny of lenders at risk.

	Month (%)	YTD (%)
Commodities[2]	-1.5	-1.1
Energy	-0.4	2.4
Industrial Metals	-0.6	-2.4
Gold	-0.2	-0.9
Master Limited Partnerships[3]	4.3	9.0
Real Estate Investment Trusts[4]	2.0	-2.2

HEDGE STRATEGIES

Macro delivered the strongest returns, capitalizing on movements in rates and currencies with shifting expectations for rate policy given fundamentals challenging the last mile in the fight against inflation. Commodities also offered wide opportunities for prescient positioning. Equity hedge and market neutral strategies gained as the market's recognition of opportunities outside of large cap tech offered rewards for idiosyncratic positioning. The VIX fell further below its long-run average with steadily rising equity markets.

	Month (%)	YTD (%)
Equity Hedge	1.1	1.8
Equity Market Neutral	1.1	2.2
Event Driven	0.3	0.1
Relative Value Arbitrage	0.2	0.2
Macro	2.2	3.4
Volatility Index (VIX = 13.40)	-6.6	7.6

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