

GREY COURT

Capital Market Flash Report

May 2024 Equity investors were broadly rewarded in May while short-term Treasury rates were little changed and longer-term rates declined. Last year we observed a dramatic reduction in inflation paired with ongoing economic strength. Now economic softness may be required to fight the last mile of inflation and invite Fed rate cuts, or at least drive out any fears of a rate hike. May delivered well-behaved inflation data and some news of softness, but not too soft, and the markets responded positively.

US EQUITY

Large cap generated strong gains despite volatility in the second half of the month, while small cap staged a comeback with positive returns year-to-date. Growth beat value as themes in artificial intelligence maintained momentum. Utilities surged and are now the second strongest sector behind technology year-to-date as power demand for data centers grows. Meanwhile the Bloomberg US Large Cap ex Magnificent 7 Index gained 2.6% in May and 7.1% year-to-date which is still historically strong for equities in general.

	Month (%)	YTD (%)
S&P 500	5.0	11.3
Russell 1000	4.7	10.6
Russell 1000 Value	3.2	7.6
Russell 1000 Growth	6.0	13.1
Russell 2000	5.0	2.7
Russell 2000 Value	4.7	0.8
Russell 2000 Growth	5.4	4.6

CURRENCIES

The US dollar fell for the first time since December as real yields in the US declined and the differential in real yields between the US and international markets generally declined as well. Reassurance from the Fed that the next move is a rate cut versus a hike added to the softness alongside calmer inflation data. The yen gained as Japanese authorities spent a record \$62 billion to support the currency after it reached a 34-year low against the US dollar. Speculators supported the euro alongside positive economic news.

	Month (%)	YTD (%)
US Dollar	-1.5	3.3
Euro	1.7	-1.7
Yen	0.3	-10.3
Emerging Markets ¹	0.5	-0.9
Canadian Dollar	1.1	-2.8
Bitcoin	13.0	59.1

NON-US EQUITY

Europe led international markets as earnings came in stronger than expected early in the month and the trade deficit narrowed with tariffs on Chinese goods. The ECB also remained on course to lead the Fed with rate cuts with milder inflation. Japan had a smaller gain as export growth was positive but below expectations. Markets rose in China as the government made efforts to stabilize the real estate sector, but a decline in manufacturing activity held back gains in the latter half of the month.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	3.0	6.1
MSCI EAFE	4.0	7.5
MSCI Europe	5.0	8.8
MSCI Japan	1.4	7.2
MSCI Emerging Markets	0.6	3.5
MSCI China	2.4	6.8
MSCI Emerging ex-China	-0.1	2.4

REAL ASSETS

Commodities rose with gains in metals and agriculture while crude oil and refined products fell. Speculators pushed copper to a new all-time high as they observed increasing demand under the energy transition balanced against limited supply. Gold also reached a new peak as silver hit its highest level in a decade with the latter supported by demand in solar panel construction. REITs rebounded with equity markets and falling rates while infrastructure performed with contractual inflation protection adjustments.

	Month (%)	YTD (%)
Commodities ²	1.8	6.8
Energy	-1.4	3.8
Industrial Metals	1.8	15.1
Gold	1.4	12.5
Master Limited Partnerships ³	0.2	12.7
Real Estate Investment Trusts ⁴	4.7	-3.0

FIXED INCOME

The moderate decline in mid-term and especially long-term yields supported fixed income returns, despite a spike in rates late in the month as some Treasury auctions resulted in a bit higher than expected yields. Both high yield and investment grade spreads were nearly flat for the month. Municipal bonds uniquely suffered losses with a 37% surge in issuance this year compared to a year ago, as local governments have had to return to the market with the decline in COVID relief funds.

	Month (%)	YTD (%)
U.S. Aggregate	1.7	-1.6
U.S. Intermediate Treasuries	1.1	-0.6
U.S. Long Treasuries	2.9	-6.6
U.S. TIPS	1.7	-0.1
Corporate IG Bonds	1.9	-1.1
High-Yield Bonds	1.1	1.6
Tax-Exempt Bonds	-0.7	-1.9

HEDGE STRATEGIES

Equity hedge produced the largest gain with favorable market dispersion. Event driven strategies found some support in distressed opportunities with higher-for-longer rates and some new deal making. Macro lost money as the US dollar changed course, rates fell but with a spike and retreat late in the month, and weakness in crude oil was paired with a rebound in natural gas. The equity volatility index declined substantially with the normalization in inflation data and a stable earnings growth outlook.

	Month (%)	YTD (%)
Equity Hedge	1.1	3.7
Equity Market Neutral	0.1	2.9
Event Driven	0.4	1.1
Relative Value Arbitrage	0.7	3.5
Macro	-0.5	5.4
Volatility Index (VIX = 12.92)	-17.4	3.8

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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