

GREYCOURT Capital Market Flash Report

August 2024 An uptick in the unemployment rate and the rising value of the yen caused volatility early in the month as the market gauged whether the Fed was behind the curve on rate cuts while traders sold positions funded by borrowing yen. After the repositioning settled down, Fed Chairman Powell provided the clearest signal yet that the first rate cut will come in September while forecasts for economic growth in the US remained solid. Large cap equity and fixed income markets gained with the shift in policy tone.

US EQUITY

Markets fell in the first week on signs of weakness in the labor market and as traders that borrowed yen in a carry trade began selling positions to cover losses when the yen surged, creating a contagion effect. Small cap declined more than large cap and ended with a loss despite a strong rebound. Large cap value beat growth as concerns emerged on the tangible impact of AI on earnings, while health care, consumer staples, and utilities outperformed as expectations for earnings growth broadened out across sectors.

	Month (%)	YTD (%)
S&P 500	2.4	19.5
Russell 1000	2.4	18.6
Russell 1000 Value	2.7	15.1
Russell 1000 Growth	2.1	21.1
Russell 2000	-1.5	10.4
Russell 2000 Value	-1.9	9.1
Russell 2000 Growth	-1.1	11.7

CURRENCIES

The US dollar weakened broadly with growing expectations of easing Fed policy. The yen surged with hawkish messaging from the Bank of Japan. The BOJ then expressed caution on further tightening after subsequent market volatility, but later reaffirmed they would maintain course if the economy and inflation continue to grow as expected. While the European Central Bank already enacted its first rate cut, currency markets were more concerned about relatively aggressive future rate cuts by the Fed, supporting the euro.

	Month (%)	YTD (%)
US Dollar	-2.3	0.4
Euro	2.1	0.1
Yen	2.6	-3.5
Emerging Markets ¹	2.0	1.3
Canadian Dollar	2.3	-1.8
Bitcoin	-8.7	38.7

NON-US EQUITY

Europe led international markets as the Stoxx Europe 600 rose to a new high at the close of the month. A report of eurozone inflation cooling to 2.2% from 2.6% in the prior month bolstered expectations of a second rate cut by the European Central Bank this year. The market in Japan eked out a gain after initially falling with concerns regarding the rapidly strengthening yen and uncertainty on the tightening of monetary policy. Note the gain was driven by currency effects as the market was down locally in Japan.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	2.9	11.6
MSCI EAFE	3.3	12.4
MSCI Europe	4.0	13.0
MSCI Japan	0.5	13.2
MSCI Emerging Markets	1.6	9.9
MSCI China	1.0	4.6
MSCI Emerging ex-China	1.9	11.7

REAL ASSETS

Commodities were flat as gains in metals were offset by losses in energy which were spread across crude oil, natural gas, and refined products. While copper was essentially flat, other industrial metals such as tin, zinc, and aluminum lifted the industrial metals index. Gold gained as a safe haven with volatility in the currency and rates markets. MLPs generated a small gain building on a very robust year-to-date return. Real estate had strong gains with growing expectations of future rate cuts with general REITs leading mortgage REITs.

	Month (%)	YTD (%)
Commodities ²	0.0	0.9
Energy	-4.3	-4.6
Industrial Metals	3.4	5.0
Gold	2.6	20.4
Master Limited Partnerships ³	0.4	18.9
Real Estate Investment Trusts ⁴	6.4	12.8

FIXED INCOME

Fixed income gained as duration was rewarded with a broadly falling yield curve. Long-term Treasuries performed best leaving them positive for the year. Investment grade and high yield credit spreads spiked early in the month but ended up essentially flat for investment grade as high yield narrowed a bit. Combined with a higher coupon, high yield generated a similar return to investment grade despite lower duration. Tax exempt bonds performed well given substantial new issuance as credit quality remained strong.

	Month (%)	YTD (%)
U.S. Aggregate	1.4	3.1
U.S. Intermediate Treasuries	1.1	3.2
U.S. Long Treasuries	2.0	0.4
U.S. TIPS	0.8	3.3
Corporate IG Bonds	1.6	3.5
High-Yield Bonds	1.6	6.3
Tax-Exempt Bonds	1.0	1.1

HEDGE STRATEGIES

Macro strategies faced the biggest loss as they were impacted by the unwinding of carry trades early in the month. Equity hedge lagged equity market neutral strategies as the latter benefited from lower net exposure and less need to reposition their portfolios around the market volatility. Despite a strong spike at the beginning of the month, implied equity market volatility (the VIX) ended the month lower with constructive comments from the Fed alongside ongoing solid expectations for growth.

	Month (%)	YTD (%)
Equity Hedge	0.8	6.7
Equity Market Neutral	1.0	6.2
Event Driven	0.6	3.4
Relative Value Arbitrage	1.0	3.3
Macro	-1.5	1.9
Volatility Index (VIX = 15.00)	-8.3	20.5

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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