

# GREYCOURT Capital Market Flash Report

**February 2025** February brought increased volatility as uncertainty regarding US tariff policies and persistent inflation drove market jitters. US large cap equities broadly declined but were able to hold on to moderate gains for the year, where value has outperformed growth. Meanwhile the small cap market declined considerably. Diversification shined as international equities and fixed income contributed to portfolio performance. Equity segments with high valuations will remain sensitive to any signs of economic weakness.

## US EQUITY

Most domestic equity segments ended in the red after a volatile month with trade concerns and worries about persistent inflation weighing on the markets. Small caps pulled back the most and are at a loss for the year while large cap value offered a small positive contribution. Consumer staples was the best performing sector in the large cap market contrasting with consumer discretionary which posted the largest loss. In the Russell 2000, technology fell 12.1% alongside energy which fell 10.2%.

|                     | Month (%) | YTD (%) |
|---------------------|-----------|---------|
| S&P 500             | -1.3      | 1.4     |
| Russell 1000        | -1.7      | 1.4     |
| Russell 1000 Value  | 0.4       | 5.1     |
| Russell 1000 Growth | -3.6      | -1.7    |
| Russell 2000        | -5.3      | -2.9    |
| Russell 2000 Value  | -3.8      | -1.9    |
| Russell 2000 Growth | -6.8      | -3.8    |

## CURRENCIES

The yen appreciated with strong economic indicators in Japan including fourth quarter GDP, estimated at 2.8%, and rising prices. The Bank of Japan remains hawkish with a likely rate hike this year. The US policy rate remains stable but some softening economic indicators in the labor market and consumption may increase the likelihood of another rate cut, and the US dollar fell modestly. Optimism around elections in Germany supported the euro while the Canadian dollar appreciated alongside strength in energy markets.

|                               | Month (%) | YTD (%) |
|-------------------------------|-----------|---------|
| US Dollar                     | -0.7      | -0.8    |
| Euro                          | 0.1       | 0.2     |
| Yen                           | 3.0       | 4.4     |
| Emerging Markets <sup>1</sup> | 0.0       | 0.9     |
| Canadian Dollar               | 0.6       | -0.5    |
| Bitcoin                       | -17.5     | -10.1   |

## NON-US EQUITY

China rallied with excitement in artificial intelligence and renewed support by Xi Jinping for the tech sector after meeting with Alibaba founder Jack Ma earlier in the month. European securities soared on positive news for infrastructure and manufacturing with a ramp up in both defense spending and the planned build out of data centers. Later in the month equities in both Europe and Japan eased with increasing concerns for US tariff policy. Japan also slipped with concerns for high valuations in tech.

|                              | Month (%) | YTD (%) |
|------------------------------|-----------|---------|
| MSCI All-Country World ex-US | 1.4       | 5.5     |
| MSCI EAFE                    | 2.0       | 7.3     |
| MSCI Europe                  | 3.7       | 10.8    |
| MSCI Japan                   | -1.4      | 0.2     |
| MSCI Emerging Markets        | 0.5       | 2.3     |
| MSCI China                   | 11.8      | 12.8    |
| MSCI Emerging ex-China       | -3.8      | -1.7    |

## REAL ASSETS

While crude oil softened a bit over the course of the month, natural gas surged by twenty-five percent with winter weather demand as the market keeps an eye on growing demand for power generation. Wholesale gasoline prices also surged in the last trading day of the month. Copper led industrial metals higher with ongoing electrification themes while gold made a small gain in a risk-off month for US equities. MLPs and REITs shrugged off the equity market decline and made strong gains with falling long-term rates.

|  | Month (%) | YTD (%) |
|--|-----------|---------|
| Commodities <sup>2</sup>                   | 0.8       | 4.8     |
| Energy                                     | 4.9       | 6.7     |
| Industrial Metals                          | 2.7       | 4.2     |
| Gold                                       | 0.8       | 7.5     |
| Master Limited Partnerships <sup>3</sup>   | 3.4       | 12.5    |
| Real Estate Investment Trusts <sup>4</sup> | 3.7       | 4.8     |

## FIXED INCOME

Long maturity Treasuries performed the best in fixed income as long-term yields fell while yields for terms shorter than one year were fairly stable. Bond funds saw the largest monthly net inflows since last July. Credit spreads widened holding back gains in high yield bonds and serving as a mild detractor for investment grade bonds. Tax-exempt bonds generated a positive return despite strong issuance, where the amount issued in the first two months of the year is fifteen percent higher than the same period last year.

|                              | Month (%) | YTD (%) |
|------------------------------|-----------|---------|
| U.S. Aggregate               | 2.2       | 2.7     |
| U.S. Intermediate Treasuries | 1.4       | 2.0     |
| U.S. Long Treasuries         | 5.2       | 5.6     |
| U.S. TIPS                    | 2.2       | 3.5     |
| Corporate IG Bonds           | 2.0       | 2.6     |
| High-Yield Bonds             | 0.7       | 2.0     |
| Tax-Exempt Bonds             | 0.9       | 1.6     |

## HEDGE STRATEGIES

Equity hedge suffered from exposure to market risk in the US where any allocation to growth and/or small cap was particularly challenging on the long side. Equity market neutral was still able to generate alpha on idiosyncratic pair trades. The big move in the mid to long end of the Treasury yield curve provided ample room for positive returns with relative value and macro managers. The VIX was calm over the first half of the month but crested over twenty before slightly receding at month end.

|                                | Month (%) | YTD (%) |
|--------------------------------|-----------|---------|
| Equity Hedge                   | -0.6      | 1.5     |
| Equity Market Neutral          | 0.3       | 1.6     |
| Event Driven                   | 0.4       | 1.1     |
| Relative Value Arbitrage       | 0.7       | 1.6     |
| Macro                          | 0.7       | 0.5     |
| Volatility Index (VIX = 19.63) | 19.5      | 13.1    |

Data Source: Bloomberg. MSCI returns are gross USD. Currency returns are Simple Price Appreciation (SPA) USD basis. Fixed Income reported on Bloomberg Barclays Indices. <sup>1</sup>MSCI Emerging Markets Currency Index. <sup>2</sup>Bloomberg Commodity Indices. <sup>3</sup>Alerian MLP Index. <sup>4</sup>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.

# Disclosures

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