

GREYCOURT

Capital Market Flash Report

US EQUITY

Renewed appetite for growth equities helped US markets outperform in May despite recent volatility. That said, domestic equities remain below their peak achieved in February. Strong earnings in tech supported markets and outweighed ongoing concerns for international trade. A slowdown in drug approvals by the FDA remains a headwind for healthcare stocks which performed the worst in May. While small caps participated in the rebound investors remained skittish on their sensitivity to economic risk.

	Month (%)	YTD (%)
S&P 500	6.3	1.1
Russell 1000	6.4	1.0
Russell 1000 Value	3.5	2.5
Russell 1000 Growth	8.8	-0.3
Russell 2000	5.3	-6.8
Russell 2000 Value	4.2	-7.7
Russell 2000 Growth	6.4	-6.0

CURRENCIES

The US dollar continued its decline year-to-date as investors continued to diversify their holdings into international markets. The yen fell with local long-term bond yields and as US tariffs on automobiles took their toll. The euro however strengthened as investors sought an alternative to the US dollar during a period of extended uncertainty in US trade and fiscal policy. Several currencies in Asia strengthened against the US dollar as southeastern nations agreed to cooperate in negotiations with the US.

	Month (%)	YTD (%)
US Dollar	-0.1	-8.4
Euro	0.2	9.6
Yen	-0.7	9.1
Emerging Markets ¹	1.9	5.5
Canadian Dollar	0.4	4.7
Bitcoin	10.8	11.9

May 2025 Domestic and international equity markets staged a strong rebound, including both large and small cap companies. While international trade policy remains in flux, investors embraced low inflation readings and a partial rebound in consumer sentiment. The Fed's GDPNow estimate also indicated a rebound in economic growth in the US after a small decline in the first quarter. Mid to long-term rates however edged upward on concern for expansive fiscal policy.

NON-US EQUITY

Both developed and emerging markets added to their gains year-to-date. However, they generally lagged the strong rally in US markets. Strong fund flows and accommodative policy continued to support the European market rally relative to other developed markets. While China posted a positive return, emerging markets outside of China produced stronger gains with hope for the resolution of trade negotiations with the US. A declining US dollar continued to be a tailwind for unhedged international exposure.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	4.7	14.4
MSCI EAFE	4.7	17.3
MSCI Europe	4.8	21.2
MSCI Japan	4.1	10.1
MSCI Emerging Markets	4.3	8.9
MSCI China	2.8	13.2
MSCI Emerging ex-China	5.0	7.3

REAL ASSETS

Commodity prices broadly fell led by declines in agriculture and precious metals. Gold fell with the equity market rally while still maintaining a large gain year-to-date. Crude oil strengthened but a decline in natural gas prices held back gains in energy markets. Copper, aluminum, and zinc all posted gains in the industrial metals markets. MLPs and REITs showed some participation in the market rebound but it was limited. REITs now have a positive return for the year while MLPs added to their gains.

	Month (%)	YTD (%)
Commodities ²	-0.6	3.0
Energy	0.5	-6.6
Industrial Metals	1.2	2.3
Gold	-0.6	24.2
Master Limited Partnerships ³	1.7	4.4
Real Estate Investment Trusts ⁴	2.1	0.5

FIXED INCOME

Intermediate and long-term yields climbed higher putting downward pressure on bond prices. Weak treasury auctions also contributed to higher base rates. Corporate and high yield securities outperformed with spread compression after the US government was downgraded by Moody's from Aaa to Aaa. Municipal bonds regained traction this month with positive inflows to ETFs and mutual funds each week in May, resulting in the largest outperformance relative to the Bloomberg US Aggregate Bond Index since April 2024.

	Month (%)	YTD (%)
US Aggregate	-0.7	2.4
US Intermediate Treasuries	-0.6	3.0
US Long Treasuries	-2.9	0.6
US TIPS	-0.6	3.7
Corporate IG Bonds	0.0	2.3
High-Yield Bonds	1.7	2.7
Tax-Exempt Bonds	0.8	0.9

HEDGE STRATEGIES

Equity hedge and equity market neutral strategies generated solid returns with the equity market rally, while risk management capped gains. Macro strategies lost money as policy uncertainty in the US continued to disrupt thematic investments. The environment for mergers and acquisitions remained quiet, limiting gains for event driven managers. Meanwhile, the implied volatility index (VIX) fell substantially over the month landing around its long-term average level.

	Month (%)	YTD (%)
Equity Hedge	2.6	2.8
Equity Market Neutral	1.2	3.4
Event Driven	1.0	2.1
Relative Value Arbitrage	0.5	1.9
Macro	-0.5	-4.3
Volatility Index (VIX = 18.57)	-24.8	7.0

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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