GREYCOURT

Capital Market Flash Report

September 2025 The Fed delivered a widely anticipated first rate cut since December 2024. Chairman Powell pivoted from concern for inflation to concern for a soft labor market, increasing expectations for additional rate cuts despite persistent inflation. Combined with a strong GDP forecast, equity markets rose on the news while fixed income also had broad gains, notably in long-term Treasuries. As markets reach new highs, we continue to monitor growing concentration in exposure to themes in artificial intelligence (AI).

US EQUITY

US equity valuations expanded with the S&P 500 reaching the highest forward price-to-earnings ratio (22.8) since December 2020. Growth equities led the charge with enthusiasm for AI still in full swing at the end of the third quarter. Value and consumer-oriented sectors struggled, except consumer durables which gained 21.5% with exposure to Tesla. Current and potential future rate cuts helped growth outperform value while providing support for small-cap which traditionally relies on floating rate financing.

	Month (%)	YTD (%)
S&P 500	3.7	14.8
Russell 1000	3.5	14.6
Russell 1000 Value	1.5	11.7
Russell 1000 Growth	5.3	17.2
Russell 2000	3.1	10.4
Russell 2000 Value	2.0	9.0
Russell 2000 Growth	4.2	11.7

NON-US EQUITY

Emerging markets surged with Chinese firms embracing AI despite restrictions on certain types of chips from the US. Falling long-term rates in China were also supportive. EAFE lagged the US with performance in Europe held back in part due to limited exposure to the tech sector. Japan delivered a stronger return but lagged the US with pressure from US tariffs and the resignation of the prime minister. Canadian markets reached a new peak due to a spike in gold and other metal prices, despite weakness in energy prices.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	3.6	26.6
MSCI Canada	3.8	27.4
MSCI EAFE	2.0	25.7
MSCI Europe	2.0	28.2
MSCI Japan	2.6	21.1
MSCI Emerging Markets	7.2	28.2
MSCI China	9.8	41.8

FIXED INCOME

Fixed income markets gained as high yield and investment grade credit spreads continued to tighten on the margin while both short-term and long-term yields declined. Yields on intermediate term Treasuries, from two to seven years, rose creating a headwind but holders were compensated with a substantial coupon rate. Tax-exempt fixed income strategies had their best return for the past sixteen months, driven by moderate supply, favorable changes in yields, and reports of strong tax revenues in a majority of states.

	Month (%)	YTD (%)
US Aggregate	1.1	6.1
US Intermediate Treasuries	0.3	5.3
US Long Treasuries	3.1	5.6
US TIPS	0.4	6.9
Corporate IG Bonds	1.5	6.9
High-Yield Bonds	0.8	7.2
Tax-Exempt Bonds	1.0	4.1

CURRENCIES

The US dollar was flat as strong indicators for the domestic economy were balanced against signs of a weak labor market and a Fed rate cut. The yen fell as the Bank of Japan held rates steady despite rising inflation forecasts and heightened political uncertainty as Prime Minister Shigeru Ishiba resigned. The euro rose modestly as the European stock market had its best September in six years and investors looked to diversify their safe haven currency exposure. The Canadian dollar declined with energy prices.

	Month (%)	YTD (%)
US Dollar	0.0	-9.9
Euro	0.4	13.5
Yen	-0.6	6.4
Renminbi	0.2	2.5
Canadian Dollar	-1.3	3.4
Bitcoin	5.4	21.5

REAL ASSETS

Gold spiked with ongoing demand from central banks, geopolitical uncertainty, and softening monetary policy in the US. MLPs declined on heightened concern regarding near-term industry growth. An Indonesian copper mine disaster marked the third such incident this year constraining the supply outlook and supporting the industrial metals index. The energy index fell with declining crude oil and natural gas prices while REITs did not fully participate in the equity rally led by tech and growth themes.

	Month (%)	YTD (%)
Commodities[1]	2.2	9.4
Energy	-0.1	-4.5
Industrial Metals	3.7	8.3
Gold	10.5	44.8
Master Limited Partnerships[2]	-3.7	5.7
Real Estate Investment Trusts[3]	1.2	4.7

HEDGE STRATEGIES

All hedge strategies were positive. Macro led the way with a very strong return as managers were able to take advantage of the movement in rates as well as outsized moves in commodity prices. Equity hedge and equity market neutral were able to generate positive gains whereby the former had a tailwind from the strength in equity markets. The VIX rose six percent but remained in the mid-teens throughout the month as positive domestic economic news outweighed concerns for a potential AI bubble or geopolitical risks.

	Month (%)	YTD (%)
Equity Hedge	1.3	8.1
Equity Market Neutral	0.3	4.4
Event Driven	0.6	4.9
Relative Value Arbitrage	1.1	5.2
Macro	3.4	2.4
Volatility Index (VIX = 16.28)	6.0	-6.2

Data Source: FactSet. MSCI returns are gross USD. Currency returns are Simple Price Appreciation (SPA) USD basis. Fixed Income reported on Bloomberg Barclays Indices. [1]Bloomberg Commodity Indices. [2]Alerian MLP Index. [3]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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