

# GREY COURT

## Capital Market

### Flash Report

**January 2026** Equity markets generally appreciated despite a new peak in US pressure to acquire Greenland and looming concerns for the independence of the Federal Reserve. A calm emerged as US engagement with Europe eased and Trump nominated Kevin Warsh for Fed Chairman, a candidate viewed with more balance than others. There was substantial rotation within equity markets as investors continue to scrutinize investment in AI and seek diversification and value elsewhere.

#### US EQUITY

The new year brought risk-on sentiment despite mid-month volatility. Style and sector tilts were prevalent with a pivot from high growth large cap names into small cap value. Performance among large-cap AI stocks was mixed amid concerns that heavy investment spending could weigh on earnings. Energy led the market, bolstered by geopolitical tensions, strong Q4 earnings, support from OPEC+, and a spike in natural gas triggered by cold weather. Financials trailed with concerns regarding net interest margins.

	Month (%)	YTD (%)
S&P 500	1.5	1.5
Russell 1000	1.4	1.4
Russell 1000 Value	4.6	4.6
Russell 1000 Growth	-1.5	-1.5
Russell 2000	5.4	5.4
Russell 2000 Value	6.9	6.9
Russell 2000 Growth	4.0	4.0

#### CURRENCIES

New tariff threats from the US and concern for how Trump's Fed chairman selection process may generate more aggressive rate cuts led to a revival of the "sell America" trade and a decline in the US dollar. The yen and the euro enjoyed a flight to safety in this environment; however, the US dollar made a small recovery with Trump's nomination for Fed chair late in the month. The yen eventually gave up some gains and may face pressure on concern for fiscal expansion with rising debt. The Canadian dollar rose with energy prices.

	Month (%)	YTD (%)
US Dollar	-1.4	-1.4
Euro	1.3	1.3
Yen	1.6	1.6
Renminbi	0.6	0.6
Canadian Dollar	1.2	1.2
Bitcoin	-4.3	-4.3

#### NON-US EQUITY

International equities led domestic markets as investors sought attractive valuations and diversification. European defense stocks continued to make gains with anticipated spending while luxury brands softened amid cooling demand. Asia led performance, most notably with a 23% surge in the South Korean KOSPI accounting for nearly half of emerging market returns. Despite new tariffs, EM continues to benefit from growth in AI, and data centers in general, as tight supply for chips and high-bandwidth memory push prices higher.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	6.0	6.0
MSCI Canada	1.2	1.2
MSCI EAFE	5.2	5.2
MSCI Europe	4.5	4.5
MSCI Japan	6.6	6.6
MSCI Emerging Markets	8.9	8.9
MSCI China	4.7	4.7

#### REAL ASSETS

Energy prices surged with winter weather driving up natural gas prices and geopolitical tension adding a premium to crude oil prices as OPEC+ maintained current production. Gold reached a new peak on concern for global government debt before a dramatic pullback on Trump's Fed chair nomination. It retained a strong gain, nonetheless. Demand for industrial metals, including copper, remained robust. MLPs gained from strong guidance on both earnings and distributions. REITs performed well with the rotation into value.

	Month (%)	YTD (%)
Commodities <sup>1</sup>	10.4	10.4
Energy	20.6	20.6
Industrial Metals	5.6	5.6
Gold	8.8	8.8
Master Limited Partnerships <sup>2</sup>	8.0	8.0
Real Estate Investment Trusts <sup>3</sup>	3.1	3.1

#### FIXED INCOME

US investment grade bonds collected enough coupon income to outpace a modest rise in the yield curve as credit spreads continued to grind tighter. High yield bonds found support in strong domestic GDP growth forecasts. The rise in the yield curve proved most challenging for long-term Treasuries. A steady rise in the 5-year breakeven inflation rate supported TIPS over traditional fixed income. Municipal bonds experienced a "January effect" as investors reinvested back into the market with lighter supply.

	Month (%)	YTD (%)
US Aggregate	0.1	0.1
US Intermediate Treasuries	0.0	0.0
US Long Treasuries	-0.5	-0.5
US TIPS	0.3	0.3
Corporate IG Bonds	0.2	0.2
High-Yield Bonds	0.5	0.5
Tax-Exempt Bonds	1.0	1.0

#### HEDGE STRATEGIES

Macro generated the strongest performance with ample opportunities in commodities, rates, and currencies, as some funds profited from positioning in swap spreads. Event driven benefited from an increase in merger and acquisition activity, especially in the large cap segment of the market. The implied volatility index (VIX) spiked mid-month and ended the month higher as investors continue to ponder geopolitical risk, tariffs, sovereign debt, and lingering inflation.

	Month (%)	YTD (%)
Equity Hedge	2.4	2.4
Equity Market Neutral	0.0	0.0
Event Driven	1.9	1.9
Relative Value Arbitrage	0.9	0.9
Macro	4.4	4.4
Volatility Index (VIX = 17.44)	16.7	16.7

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

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