GREYCOURT

Capital Market Flash Report

August 2026 Despite the headlines, longer duration fixed income made money with solid coupons. Much of the rate movement that Secretary Bessent attempted to cool off had occurred in July. The Treasury market twisted with both Bessent's announcement of buybacks and Fed Chair Warsh's attention to inflation, but these moves tended to reverse in the following days. Equities were robust on broadly strong earnings both here and abroad and strong signals for economic growth in the US, despite no solution to the war in the Middle East.

US EQUITY

US equities gained in August with value again outperforming growth and large cap outperforming small and mid cap stocks. Within large cap, materials led after a rebound rally in gold. Technology also recovered and was particularly strong in semiconductors after last month's drawdown. Small-cap healthcare outperformed on positive drug trial results. SMID cap utilities (an interest rate sensitive sector) struggled on the risk of higher rates and the risk of local government pushback on data centers.

	Month (%)	YTD (%)
MSCI USA Large Cap	3.0	13.2
MSCI USA Large Cap Value	3.7	18.2
MSCI USA Large Cap Growth	2.3	8.9
S&P 500	2.7	13.1
MSCI USA SMID Cap	1.5	15.3
MSCI USA Small Cap	1.9	19.5
MSCI USA Mid Cap	1.2	12.0

NON-US EQUITY

Non-US Equities also posted modest gains with Canada shrugging off newly implemented mutual tariffs with the US and rallying alongside higher energy prices. Strong corporate earnings continue to support European equities. Emerging Markets remained volatile but ended higher with rebounds in AI names that sold off in July. Japan outperformed on a late month rally supported by improving economic conditions. Chinese equity markets continued to struggle on weak domestic demand and contracting factory activity.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	2.6	17.4
MSCI Canada	3.7	14.9
MSCI EAFE	2.0	14.2
MSCI Europe	1.4	11.7
MSCI Japan	3.4	21.1
MSCI Emerging Markets	3.4	24.4
MSCI China	-0.3	-7.5

FIXED INCOME

Fixed income posted modest gains driven by coupon income. Rates remained stable despite comments from policymakers, concerns for fiscal solvency, and inflation building in the outlook. As bonds earned their yields for the month, the higher yields on longer-duration bonds drove higher returns. The yield curve modestly "twisted" through the month with 10 and 30 year yields stable and shorter tenor yields slightly higher. High yield spreads continued to contract and remain tight, allowing credit to outperform investment grade.

	Month (%)	YTD (%)
US Aggregate	0.4	-0.3
US Intermediate Treasuries	0.2	0.1
US Long Treasuries	0.8	-2.8
US TIPS	0.0	0.5
Corporate IG Bonds	0.4	-0.4
High-Yield Bonds	1.0	2.7
Tax-Exempt Bonds	0.4	0.3

CURRENCIES

The US dollar declined for the second month in a row as the market priced in concerns about the federal government debt and deficit. Secretary Bessent's announcement of larger bond buybacks raised additional concerns. The euro rose as markets also weighed firmer European inflation, which could keep the European Central Bank on a higher-for-longer rate path. The yen suffered persistent weakness despite a coordinated effort between the US and Japan to support the currency.

	Month (%)	YTD (%)
US Dollar	-0.5	1.1
Euro	1.0	-1.1
Yen	-0.3	-1.8
Renminbi	0.4	4.0
Canadian Dollar	1.2	-1.1
Bitcoin	25.1	-10.4

REAL ASSETS

A strong return in commodities was led by gold's recovery, which gained on its safe-haven status as the US dollar weakened. Energy added to strong returns year-to-date as Brent crude oil rallied with unrest in the Middle East. Domestic oil and natural gas prices also posted gains. Copper continued to climb, supported by ongoing data center buildouts and the broad expansion in electrification. MLPs gained with strong expectations for pipeline volumes, while REITs retreated on expectations for higher interest rates.

	Month (%)	YTD (%)
Commodities[1]	7.4	32.1
Energy	5.6	69.1
Industrial Metals	2.3	13.0
Gold	9.5	2.0
Master Limited Partnerships[2]	3.3	31.6
Real Estate Investment Trusts[3]	-3.0	16.7

HEDGE STRATEGIES

Hedge strategies were broadly positive. Equity hedge and equity market neutral benefitted from wide differences in individual stock and sector performance. Macro managers took advantage of the "twist" in the yield curve (see fixed income commentary), dollar weakness and substantial moves in commodity markets. Event driven returns were muted by equity market rotations putting pressure on crowded positions. Implied volatility, measured by the VIX, declined as strong earnings calmed markets.

	Month (%)	YTD (%)
Equity Hedge	1.5	8.0
Equity Market Neutral	0.6	-0.4
Event Driven	0.2	2.5
Relative Value Arbitrage	0.4	1.8
Macro	1.5	5.7
Volatility Index (VIX = 14.92)	-6.7	-0.2

Data Source: FactSet. MSCI returns are gross USD. Currency returns are Simple Price Appreciation (SPA) USD basis. Fixed Income reported on Bloomberg 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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