GREYCOURT

Capital Market Flash Report

July 2024 Favorable inflation reports supported the view that the Fed will be prepared for its first rate cut this cycle in September. Labor markets continued to soften slowly which has helped reduce inflationary pressures and supports hope for a soft-landing. Despite falling inflation, consumer sentiment dropped to its lowest level this year which merits ongoing attention. Nevertheless, equity and fixed income markets were broadly able to finish the month with positive returns.

US EQUITY

The positive news on inflation led to some dramatic market rotations. Small cap outperformed large cap by the biggest margin since February 2000. Value stocks also surged as investors took profits on positions in the Magnificent 7 and plowed them into companies with cheaper valuations. While technology entered a correction, several sectors rallied based on the hope that rate cuts will now come sooner than later. This notably included financials, real estate, and utilities as well as telecommunications in the small cap market.

	Month (%)	YTD (%)
S&P 500	1.2	16.7
Russell 1000	1.5	15.9
Russell 1000 Value	5.1	12.1
Russell 1000 Growth	-1.7	18.6
Russell 2000	10.2	12.1
Russell 2000 Value	12.2	11.2
Russell 2000 Growth	8.2	13.0

NON-US EQUITY

Developed markets were able to generate solid gains with investors attracted to cheaper valuations despite a softer outlook for GDP growth relative to the US. Europe has already begun to make small rate cuts and Japan continues to maintain the market's attention for its positive efforts toward reforming corporate governance. China held back returns in emerging markets after producing its weakest economic growth in five quarters.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	2.3	8.5
MSCI EAFE	2.9	8.9
MSCI Europe	2.2	8.7
MSCI Japan	5.8	12.6
MSCI Emerging Markets	0.4	8.1
MSCI China	-1.2	3.5
MSCI Emerging ex-China	0.9	9.6

FIXED INCOME

The Treasury yield curve fell from three months to maturity and longer with growing anticipation of future rate cuts. This generated gains in fixed income alongside collecting yield in a higher rate environment. It is worth remembering that the yield component of the municipal bond return below does not reflect its favorable tax treatment. High yield and investment grade corporate bond spreads continued to tighten in the first half of the month but then returned to just above where they started by the end of the month.

	Month (%)	YTD (%)
U.S. Aggregate	2.3	1.6
U.S. Intermediate Treasuries	1.8	2.1
U.S. Long Treasuries	3.6	-1.6
U.S. TIPS	1.8	2.5
Corporate IG Bonds	2.4	1.9
High-Yield Bonds	1.9	4.6
Tax-Exempt Bonds	0.9	0.1

CURRENCIES

The US dollar showed rare weakness during its overall rally this year as the Fed potentially gets closer to cutting rates. The movement in the yen was the biggest news in currency markets as it reversed from multi-decade lows with the largest BOJ rate hike since 2007. The euro rose by far less as Europe has already begun cutting rates, albeit they paused during the month. The Canadian dollar fell after the Bank of Canada cut rates for a second time and with weakness in energy prices.

	Month (%)	YTD (%)
US Dollar	-1.7	2.7
Euro	1.1	-1.9
Yen	7.3	-6.0
Emerging Markets[1]	0.3	-0.7
Canadian Dollar	-0.9	-4.1
Bitcoin	4.3	51.9

REAL ASSETS

Energy and industrial metals took a beating from a softening outlook for global demand while gold continued to shine in a year of election uncertainty around the globe. All eyes are on OPEC+ for their next move on managing supply. Real estate investment trusts participated in the sector rotation theme with other sectors carrying cheaper valuations. Both REITs and MLPs were also supported by expectations regarding future rate cuts.

	Month (%)	YTD (%)
Commodities[2]	-4.0	0.9
Energy	-7.6	-0.3
Industrial Metals	-6.8	1.6
Gold	4.1	17.3
Master Limited Partnerships[3]	0.6	18.4
Real Estate Investment Trusts[4]	6.3	6.0

HEDGE STRATEGIES

Major market rotations disrupted equity hedge managers as risk management routines led to reductions in gross exposure causing losses in crowded positions. Equity market neutral managers sidestepped the losses with lower market exposure while profiting from decent market dispersion. Falling rates supported event driven investments. Macro managers had plenty of opportunities in rates, currencies, and commodity markets, but were generally on the wrong side of the trades. Volatility surged back toward its long run average.

	Month (%)	YTD (%)
Equity Hedge	-0.8	5.2
Equity Market Neutral	0.9	5.1
Event Driven	1.3	2.6
Relative Value Arbitrage	1.0	4.9
Macro	-1.2	3.3
Volatility Index (VIX = 16.36)	31.5	31.4

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