GREYCOURT

Capital Market Flash Report

September 2024 The Fed delivered a long-anticipated rate cut after holding the restrictive policy rate steady for nearly fourteen months. The cut was on the higher end of the expected range with signs of weakness in the labor market and manufacturing. A subsequent report of the Fed's preferred inflation gauge, the PCE Price Index, assuaged fears that the Fed is risking a second round of inflation. Equity and bond markets responded positively as the expected path for further rate cuts added support.

US EQUITY

Large cap outperformed small cap as growth beat value, maintaining both trends year-to-date. The Magnificent 7 outperformed the broader market as Tesla continued a strong rebound. The telecommunications and consumer discretionary sectors were top performers, alongside basic materials which benefited from the announcement of economic stimulus in China. Energy suffered the biggest loss on declining crude oil prices, while financials and healthcare suffered smaller losses.

	Month (%)	YTD (%)
S&P 500	2.1	22.1
Russell 1000	2.1	21.2
Russell 1000 Value	1.4	16.7
Russell 1000 Growth	2.8	24.5
Russell 2000	0.7	11.2
Russell 2000 Value	0.1	9.2
Russell 2000 Growth	1.3	13.2

NON-US EQUITY

The market in Japan fluctuated with lingering concerns regarding the value of the yen and eventually declined with the election of a party leader viewed as hawkish on rates. Europe declined slightly on economic concerns but gained a small amount on a US dollar basis with the appreciation of the euro. China skyrocketed with wide ranging monetary and fiscal stimulus as well as direct market support. This boosted emerging markets and Hong Kong participated as well, lifting the EAFE Index.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	2.7	14.7
MSCI EAFE	1.0	13.5
MSCI Europe	0.4	13.4
MSCI Japan	-0.4	12.7
MSCI Emerging Markets	6.7	17.2
MSCI China	23.9	29.6
MSCI Emerging ex-China	1.3	13.1

FIXED INCOME

The Fed's rate cut transmitted across the yield curve broadly driving yields lower. Long-term Treasuries benefited the most. Tax-exempt bonds performed alongside similar duration intermediate Treasuries when adjusted for their tax profile. However, year-to-date returns have been somewhat muted with persistently high levels of issuance. Munis are generally priced cheap relative to Treasuries and have room to retrace this discount through expectations of a supportive balance in supply and demand through yearend.

	Month (%)	YTD (%)
U.S. Aggregate	1.3	4.4
U.S. Intermediate Treasuries	1.0	4.2
U.S. Long Treasuries	2.0	2.4
U.S. TIPS	1.5	4.9
Corporate IG Bonds	1.8	5.3
High-Yield Bonds	1.6	8.0
Tax-Exempt Bonds	0.7	1.9

CURRENCIES

The US dollar weakened with the Fed's first rate cut alongside an expected series of rate cuts through 2025. The BOJ held rates steady during the month but the election of a new ruling party leader who is hawkish on rates gave the yen a boost late in the month. The ECB made a quarter point rate cut while indicating they would push out any further cuts to December, but then indicated such a cut in October may be warranted due to new signs of economic weakness; the euro gained but by less than the yen.

	Month (%)	YTD (%)
US Dollar	-0.9	-0.5
Euro	0.8	0.9
Yen	1.8	-1.8
Emerging Markets[1]	1.7	3.0
Canadian Dollar	-0.2	-2.1
Bitcoin	8.0	49.8

REAL ASSETS

Energy gained as natural gas prices surged with late season air conditioning demand and a weaker than average build in inventories. Crude oil tempered gains as it fell for the third month in a row on concerns of weakening global demand without sufficient signals to curtail production from OPEC. Copper came in strong late in the month with stimulus in China. Gold set a new peak price supported by geopolitical risk and falling rates. REITs benefited from the realized and expected decline in rates.

	Month (%)	YTD (%)
Commodities[2]	4.9	5.9
Energy	0.5	-4.1
Industrial Metals	6.8	12.2
Gold	5.7	27.2
Master Limited Partnerships[3]	-0.3	18.6
Real Estate Investment Trusts[4]	2.7	15.8

HEDGE STRATEGIES

Macro benefited from positioning around the substantial Fed rate cut and opportunities in commodity markets. Equity hedge gained on healthy market dispersion while falling rates provided support for deal making in event driven. An early whipsaw and then steadily directional month disrupted equity market neutral. Equity market volatility (as measured by the VIX) spiked early in the month on economic concerns and then receded with the Fed rate cut and a stable outlook for economic growth, while ending higher.

	Month (%)	YTD (%)
Equity Hedge	0.8	7.6
Equity Market Neutral	-0.2	6.0
Event Driven	0.6	3.9
Relative Value Arbitrage	1.1	7.3
Macro	2.2	4.1
Volatility Index (VIX = 16.73)	11.5	34.4

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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