

GREY COURT

Capital Market Flash Report

October 2024 Intermediate and long-term Treasury yields rose on concern for the Fed's execution of a soft landing and the potential pace of expansion in federal government debt. The US economy remains strong while both presidential candidates may offer fiscal support that will increase budget deficits and possibly run counter to the Fed's moderation of inflation. Equity markets declined with the uncertainty in Fed policy and waning international economic growth. Gold and the US dollar offered rare gains among the broad weakness.

US EQUITY

Large cap earnings have generally come in strong in the current earnings cycle, but investors were disappointed by soft forward guidance in some cases, in an environment of high valuations. The rise in long-term yields, which increases discount rates and the cost of debt, weighed more heavily on small cap companies. Growth lost less than value, maintaining its advantage year-to-date. Financials and telecommunications outperformed while healthcare, materials, and real estate led the decline in equity markets.

	Month (%)	YTD (%)
S&P 500	-0.9	21.0
Russell 1000	-0.7	20.3
Russell 1000 Value	-1.1	15.4
Russell 1000 Growth	-0.3	24.1
Russell 2000	-1.4	9.6
Russell 2000 Value	-1.6	7.5
Russell 2000 Growth	-1.3	11.7

CURRENCIES

The US dollar moved back into positive gains for the year following Treasury yields higher as expectations for Fed policy shifted to be less dovish. The yen fell with an election delivering political uncertainty that could weigh on BOJ plans to follow a series of rate hikes, while there were some signs that desirable and rare domestic inflation was fading. The euro declined as sputtering growth lifted expectations for future rate cuts by the ECB. The Canadian dollar declined with a widening rate spread versus the US.

	Month (%)	YTD (%)
US Dollar	3.2	2.6
Euro	-2.3	-1.4
Yen	-5.5	-7.2
Emerging Markets ¹	-1.6	1.4
Canadian Dollar	-2.9	-5.0
Bitcoin	9.9	64.5

NON-US EQUITY

Europe declined on concerns for economic growth, including France and Germany, with contractionary signals from purchasing manager indexes. Investors are questioning Europe's ability to perform in the long run with a heavy regulatory overhang, but valuations remain relatively cheap. Japan and EM ex-China fell the least as Korea joins Japan in executing corporate governance reform. President Xi's stimulus announcement has yet to be followed with sufficient details and the market fell from its surge in late September.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	-4.9	9.1
MSCI EAFE	-5.4	7.3
MSCI Europe	-5.9	6.7
MSCI Japan	-3.9	8.3
MSCI Emerging Markets	-4.3	12.2
MSCI China	-5.9	21.9
MSCI Emerging ex-China	-3.7	8.9

REAL ASSETS

Gold surged alongside persistent and rising geopolitical risk as record prices could not hold back record levels of demand. Meanwhile energy fell despite gains in crude oil as natural gas cratered with a warm seasonal weather forecast alongside strong domestic production. Industrial metals declined, with copper off nearly 5%, as the excitement for economic stimulus in China subsided while the market awaits details. MLPs and REITs followed equities lower with unhelpful pressure from rising long-term yields.

	Month (%)	YTD (%)
Commodities ²	-1.9	3.9
Energy	-4.4	-8.3
Industrial Metals	-3.7	8.1
Gold	3.8	32.0
Master Limited Partnerships ³	-1.3	17.0
Real Estate Investment Trusts ⁴	-2.9	12.5

FIXED INCOME

The bond market endured a combined headwind of economic strength forestalling the expected pace of rate cuts, a potential increase in inflationary tariffs after the election, and concern for rising federal government debt. Long-term Treasuries returned to a loss year-to-date. Investment grade bonds lost more than high yield bonds with more than twice the duration and lower coupons. Strong demand for municipal bonds with several weeks of inflows allowed them to outperform intermediate Treasuries of similar duration.

	Month (%)	YTD (%)
U.S. Aggregate	-2.5	1.9
U.S. Intermediate Treasuries	-1.6	2.5
U.S. Long Treasuries	-5.2	-2.9
U.S. TIPS	-1.8	3.0
Corporate IG Bonds	-2.4	2.8
High-Yield Bonds	-0.5	7.4
Tax-Exempt Bonds	-1.1	0.7

HEDGE STRATEGIES

Outsized movements in currencies, commodities, and rates left little room for mistakes and global macro generated the biggest loss among hedge strategies. On the contrary, healthy dispersion gave equity market neutral strategies room to profit while remaining neutral to market volatility. Rising rates and uncertainty regarding the future leader of the FTC after the election was not supportive of deal making in event driven strategies. Among the uncertainty, demand for options led to a surge in the implied volatility index (VIX).

	Month (%)	YTD (%)
Equity Hedge	-0.3	7.2
Equity Market Neutral	0.2	6.0
Event Driven	-0.5	3.4
Relative Value Arbitrage	-0.2	4.3
Macro	-1.3	2.4
Volatility Index (VIX = 23.16)	38.4	86.0

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