GREYCOURT

# Capital Market Flash Report

**November 2024** The reelection of Donald Trump sent domestic equities soaring as expectations of reduced regulation and relatively favorable tax policies provided new support for the bull market. Meanwhile broad threats of increased tariffs were a headwind for equities in both developed international and emerging markets. The Fed proceeded with another rate cut and while inflation has remained persistently above target the latest reports met expectations, supporting fixed income markets.

## US EQUITY

Small caps surged with growth leading value. Trump's likely favorable regulatory policies, including for mergers and acquisitions, provided support. The higher degree of domestic revenue generation among small caps may also be favorable with higher tariffs if input costs remain contained. Further, small caps often have a stronger response to declining rates, and they have lower valuations. The Russell 1000 moderately beat the S&P 500 indicating some broadening performance beyond mega cap companies.

| | Month (%) | YTD (%) |
|---|---|---|
| S&P 500 | 5.9 | 28.1 |
| Russell 1000 | 6.4 | 28.1 |
| Russell 1000 Value | 6.4 | 22.8 |
| Russell 1000 Growth | 6.5 | 32.2 |
| Russell 2000 | 11.0 | 21.6 |
| Russell 2000 Value | 9.6 | 17.9 |
| Russell 2000 Growth | 12.3 | 25.4 |

## NON-US EQUITY

International developed markets stood in stark contrast to the strong risk-on appetite in the US. While returns were modestly positive on a local basis in Europe and Japan, with gains of less than 1% each, weakness in the euro led to negative returns in Europe and for EAFE more broadly on a US dollar basis. Overall, Trump's threat of substantial new tariffs piled on to expectations for slowing growth abroad. Ongoing economic and geopolitical concerns in China added further downward pressure to returns in emerging markets.

| | Month (%) | YTD (%) |
|---|---|---|
| MSCI All-Country World ex-US | -0.9 | 8.2 |
| MSCI EAFE | -0.6 | 6.8 |
| MSCI Europe | -1.7 | 5.0 |
| MSCI Japan | 0.7 | 9.0 |
| MSCI Emerging Markets | -3.6 | 8.1 |
| MSCI China | -4.4 | 16.5 |
| MSCI Emerging ex-China | -3.3 | 5.4 |

## FIXED INCOME

Fixed income markets rose with declining rates from two years to further out the yield curve. Strong demand for municipal bonds with mid-term duration led to outperformance relative to intermediate Treasuries. Credit spreads continued to contract as high yield and investment grade spreads reached their lowest level since the mid-2000s. Similar levels in both spreads were last seen prior to that in the late 1990s. Today's higher yields have attracted capital while resting on a cushion of the underlying "risk-free" rate.

| | Month (%) | YTD (%) |
|---|---|---|
| U.S. Aggregate | 1.1 | 2.9 |
| U.S. Intermediate Treasuries | 0.5 | 3.0 |
| U.S. Long Treasuries | 1.8 | -1.2 |
| U.S. TIPS | 0.5 | 3.5 |
| Corporate IG Bonds | 1.3 | 4.1 |
| High-Yield Bonds | 1.2 | 8.7 |
| Tax-Exempt Bonds | 1.0 | 1.7 |

## CURRENCIES

The US dollar dominated traditional currency markets with Trump's election signaling further economic strength through domestic and foreign policy. The euro weakened with expectations that the ECB may have to make a larger cut in rates to support the economy. The yen gained with an increase in consumer prices in Tokyo alongside a rise in retail sales and industrial production, increasing the chances for a rate hike in December. Cryptocurrencies surged with Trump's potential changes in regulation.

| | Month (%) | YTD (%) |
|---|---|---|
| US Dollar | 1.7 | 4.3 |
| Euro | -2.8 | -4.2 |
| Yen | 1.5 | -5.8 |
| Emerging Markets[1] | -0.9 | 0.5 |
| Canadian Dollar | -0.5 | -5.4 |
| Bitcoin | 38.5 | 127.8 |

## REAL ASSETS

Gold fell with the approach of a ceasefire between Isreal and Lebanon, and possibly with Trump's selection for Secretary of the Treasury being viewed as a source of stability. Energy gained as strength in the natural gas market overcame the softening price of crude oil. In any event, Trump's focus on expanding domestic energy production provided very strong support for MLPs. Falling rates supported REITs, however, they lagged the overall equity market with some news of dividend cuts to shore up balance sheets.

| | Month (%) | YTD (%) |
|---|---|---|
| Commodities[2] | 0.4 | 4.3 |
| Energy | 3.7 | -5.0 |
| Industrial Metals | -1.2 | 6.8 |
| Gold | -3.0 | 28.0 |
| Master Limited Partnerships[3] | 14.6 | 34.0 |
| Real Estate Investment Trusts[4] | 4.4 | 17.4 |

## HEDGE STRATEGIES

Equity hedge and equity market neutral produced solid returns among the differentiated performance across domestic and international markets. Equity market neutral is on its way to a solid year, providing incremental value over fixed income exposure for diversification. Macro had a strong return with ample room for alpha generation in currency and fixed income markets with the divergence in global central bank policies. Implied volatility fell well below average with the strong equity market in the US.

| | Month (%) | YTD (%) |
|---|---|---|
| Equity Hedge | 1.2 | 8.1 |
| Equity Market Neutral | 0.9 | 7.1 |
| Event Driven | -0.1 | 3.2 |
| Relative Value Arbitrage | 0.8 | 5.0 |
| Macro | 1.2 | 3.2 |
| Volatility Index (VIX = 13.51) | -41.7 | 8.5 |

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.

# Disclosures

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