GREYCOURT

Capital Market Flash Report

January 2025 The year began with high valuations in US large cap equities, particularly among tech-related companies. Many held the view that any major bad news could trigger a correction. Meanwhile a new presidential administration held firm on threats of new widespread tariffs. News from China that AI may be far cheaper to implement tested the market but led to sector and geographic rotation rather than a broad sell-off. Rates and inflation were relatively calm, the Fed held firm on policy, and bonds earned their income.

US EQUITY

Markets posted strong gains where value led growth among large cap companies. Last year's worst performing sector, basic materials, rebounded to lead value ahead. Tech posted the lowest performance after DeepSeek introduced its highly efficient (apparently) AI model. This shocked investors but the sector managed to recoup some losses. Communication services was still able to generate the highest performance. Among small cap companies, healthcare led the way while energy suffered a loss as growth was broadly rewarded.

	Month (%)	YTD (%)
S&P 500	2.8	2.8
Russell 1000	3.2	3.2
Russell 1000 Value	4.6	4.6
Russell 1000 Growth	2.0	2.0
Russell 2000	2.6	2.6
Russell 2000 Value	2.1	2.1
Russell 2000 Growth	3.2	3.2

NON-US EQUITY

European equities rallied to new highs after the ECB cut rates for the fifth consecutive time on stagnating GDP. New US tariffs planned for Canada, Mexico, and China did not yet affect European markets as some investors may have sought relatively low valuations. Japan raised rates to the highest level since 2008 holding back its equity markets. Stimulus in China fueled consumers to open their wallets but it did not create the same enthusiasm for Chinese equities. Strong sentiment in Brazil supported emerging markets.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	4.0	4.0
MSCI EAFE	5.3	5.3
MSCI Europe	6.9	6.9
MSCI Japan	1.6	1.6
MSCI Emerging Markets	1.8	1.8
MSCI China	1.0	1.0
MSCI Emerging ex-China	2.1	2.1

FIXED INCOME

There were stable returns across fixed income as the Fed left rates unchanged and there was little month-on-month change in the yield curve. High yield benefited from larger coupons and as its option adjusted spread contracted to its tightest level at month end since May 2007. The U.S. Agg reached its tightest spread since April 2021. Municipal supply increased 20% compared to January last year but demand kept up. Municipal supply is expected to remain strong this year with maturing COVID issuance and expiring federal support.

	Month (%)	YTD (%)
U.S. Aggregate	0.5	0.5
U.S. Intermediate Treasuries	0.5	0.5
U.S. Long Treasuries	0.4	0.4
U.S. TIPS	1.3	1.3
Corporate IG Bonds	0.6	0.6
High-Yield Bonds	1.4	1.4
Tax-Exempt Bonds	0.7	0.7

CURRENCIES

The yen had its biggest January gain since 2018 with the market expecting more rate hikes as other developed countries are in easing cycles. The Canadian dollar fell with looming tariffs, touching lows not seen since 2002. The US dollar eased a bit after last year's 7.1% gain. The euro stabilized, after falling 6.2% last year, with Trump's tariff threats focused more heavily elsewhere during the month. Emerging market currencies had a small gain as demand for carry trades outweighed tariff concerns.

	Month (%)	YTD (%)
US Dollar	-0.1	-0.1
Euro	0.1	0.1
Yen	1.3	1.3
Emerging Markets[1]	0.8	0.8
Canadian Dollar	-1.1	-1.1
Bitcoin	9.0	9.0

REAL ASSETS

Commodities had a solid quarter with strong appreciation in gold as global geopolitical risks continued to simmer. Further, potential inflation risks persist in the US with potential support from tariffs and growing concerns regarding government budget deficits. Platinum (+15.0%) and silver (+10.7%) surged even higher. Copper had healthy gains (+6.7%) serving as a welcome positive indicator for healthy global economic activity. MLPs gained on Trump's support for domestic energy production.

	Month (%)	YTD (%)
Commodities[2]	4.0	4.0
Energy	1.8	1.8
Industrial Metals	1.4	1.4
Gold	6.7	6.7
Master Limited Partnerships[3]	8.8	8.8
Real Estate Investment Trusts[4]	1.0	1.0

HEDGE STRATEGIES

Hedge strategies generated solid gains except macro. Equity hedge managers often say there is a "right kind" of volatility. Volatility may create over or under valued securities, and it is good to have a certain amount, as in January, without any sustained spikes in the VIX above 20. Pair that with ongoing healthy dispersion among equities and there is room for generating alpha. Event driven may improve this year if the M&A cycle picks up under a more friendly administration. Macro struggled with less predictable policy making.

	Month (%)	YTD (%)
Equity Hedge	2.1	2.1
Equity Market Neutral	1.2	1.2
Event Driven	0.7	0.7
Relative Value Arbitrage	0.9	0.9
Macro	-0.4	-0.4
Volatility Index (VIX = 16.43)	-5.3	-5.3

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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