GREYCOURT

Capital Market Flash Report

March 2025 US equity markets fell with tariff announcements and concern for their impact on economic growth and inflation. Building permits and housing starts were favorable while the core CPI was below expectations. However, consumer spending and retail sales fell below expectations and the core PCE price index was higher than expected at month-end. Volatility will likely persist as markets gauge the impact of tariffs. We are scrutinizing indicators for signs the economy can outrun the ultimate changes in trade policy.

US EQUITY

Growth companies declined sharply with the market's reassessment of economic risk. Consumer discretionary, technology, and communication services all stood out on the downside. The latter two sectors had their worst month since September 2022. Pockets of value stocks provided some cushion. Large cap energy posted a strong gain with rising energy prices while utilities generated a small positive return. Small cap generally performed worse given its higher sensitivity to potential economic weakness.

	Month (%)	YTD (%)
S&P 500	-5.6	-4.3
Russell 1000	-5.8	-4.5
Russell 1000 Value	-2.8	2.1
Russell 1000 Growth	-8.4	-10.0
Russell 2000	-6.8	-9.5
Russell 2000 Value	-6.0	-7.7
Russell 2000 Growth	-7.6	-11.1

NON-US EQUITY

A rotation from domestic to international stocks continued albeit with mixed results. Europe generated a small loss overall on concern of wider implications from US tariffs. However, German equities rose with the announcement of stimulus and the easing of government borrowing rules. In emerging markets, China gained from a pledge of stimulus and renewed interest in the capabilities of its technology sector. India rebounded with positive economic news and reduced outflows from foreign investors.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	-0.1	5.4
MSCI EAFE	-0.3	7.0
MSCI Europe	-0.2	10.6
MSCI Japan	0.3	0.5
MSCI Emerging Markets	0.7	3.0
MSCI China	2.0	15.1
MSCI Emerging ex-China	0.1	-1.6

FIXED INCOME

The yield curve twisted as intermediate rates fell with the market pricing in a higher risk of recession while rates for maturities longer than ten years rose. The US Aggregate was flat as support from income and falling intermediate rates was offset by spread widening in the investment grade market. High yield spreads widened to an eight-month high, generating a loss in high yield bonds. Municipal bonds fell as higher supply met limited demand, enhancing their attractiveness relative to Treasuries on a tax-adjusted basis.

	Month (%)	YTD (%)
US Aggregate	0.0	2.8
US Intermediate Treasuries	0.5	2.5
US Long Treasuries	-0.9	4.7
US TIPS	0.6	4.2
Corporate IG Bonds	-0.3	2.3
High-Yield Bonds	-1.0	1.0
Tax-Exempt Bonds	-0.9	0.7

CURRENCIES

The US dollar declined with growing concern regarding the effects of substantial new tariffs. Changes in investment flows from domestic to international markets potentially added pressure. The euro gained as Germany announced its substantial stimulus package. The index of emerging market currencies performed well as China pledged stimulus to boost domestic consumption and support growth. The yen had a small gain as the BOJ left rates unchanged, but an uptrend in inflation could lead to rate hikes by midyear.

	Month (%)	YTD (%)
US Dollar	-3.2	-3.9
Euro	4.3	4.5
Yen	0.4	4.8
Emerging Markets[1]	0.9	1.7
Canadian Dollar	0.5	0.0
Bitcoin	-2.1	-12.1

REAL ASSETS

Commodities had a strong month led by gold, copper, and tin. Gold surged with demand for its safe-haven status as the market grappled with risks that could negatively affect Treasuries and the US dollar. Industrial metals gained from economic stimulus announcements in Germany and China while US demand surged for stockpiling ahead of any potential tariffs. REITs declined, notably in lodging and resorts but also regional malls and data centers. MLPs gained alongside healthy demand in energy markets.

	Month (%)	YTD (%)
Commodities[2]	3.9	8.9
Energy	4.0	11.0
Industrial Metals	4.2	8.6
Gold	9.9	18.2
Master Limited Partnerships[3]	0.0	12.6
Real Estate Investment Trusts[4]	-3.5	1.1

HEDGE STRATEGIES

Macro managers struggled with being short the euro and/or expecting lower long-term rates in Europe which rose with the announcement of new stimulus and relaxed debt policy in Germany. Equity hedge struggled as managers worked to reduce net exposure and realign portfolios around tariff risks as those risks varied in intensity. The S&P 500 Volatility Index (VIX) spiked mid-month with tariff concerns but ended below its peak, which was similar to the peak in December around Powell's hawkish comments.

	Month (%)	YTD (%)
Equity Hedge	-1.0	0.6
Equity Market Neutral	0.5	2.1
Event Driven	0.0	1.1
Relative Value Arbitrage	-0.4	1.2
Macro	-1.3	-0.8
Volatility Index (VIX = 22.28)	13.5	28.4

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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