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Highland ReCAP

A Review of Capital Markets

January 2024

Summary

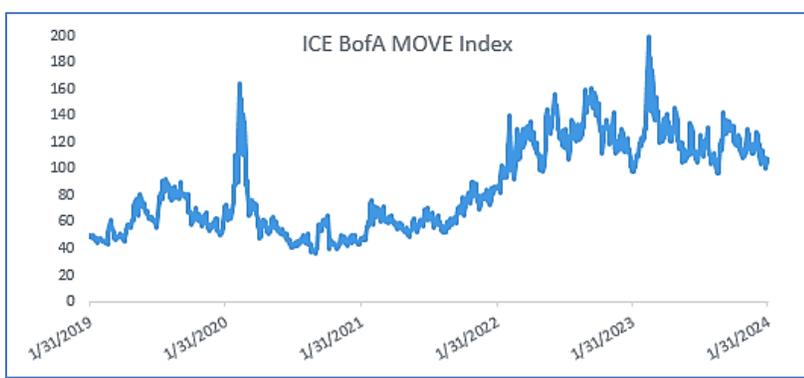
Markets broadly got off to a poor start in 2024, punctuated by a final-day of January sell-off in U.S. equities. Economic indicators showed a sturdy jobs market and strong holiday spending from consumers. Inflation numbers for December came in slightly above expectations but remained moderate at 0.3% for the month. Interest rates carried 2023's elevated volatility into the new year but finished little changed for the month. The month closed with the year's first Federal Reserve Board meeting, and an unsurprising pause on rate changes. The markets remain focused on the Fed's March meeting, which is priced as a coin-flip for the first rate cut of 2024.

Equities

Stocks were mixed in January with developed large cap equities outperforming smaller and emerging markets. U.S. large caps returned 1.4% for the month led by the usual suspects, megacap tech names. Returns were rosier before a 1.6% drawdown on the last day of the month, sparked by unimpressive earnings and renewed worries for regional banks and commercial real estate. Outside of the U.S., developed markets recovered from earlier losses to finish slightly higher, while emerging markets sold off, as China continued to resist wide-scale intervention to assist its suddenly sluggish economy.

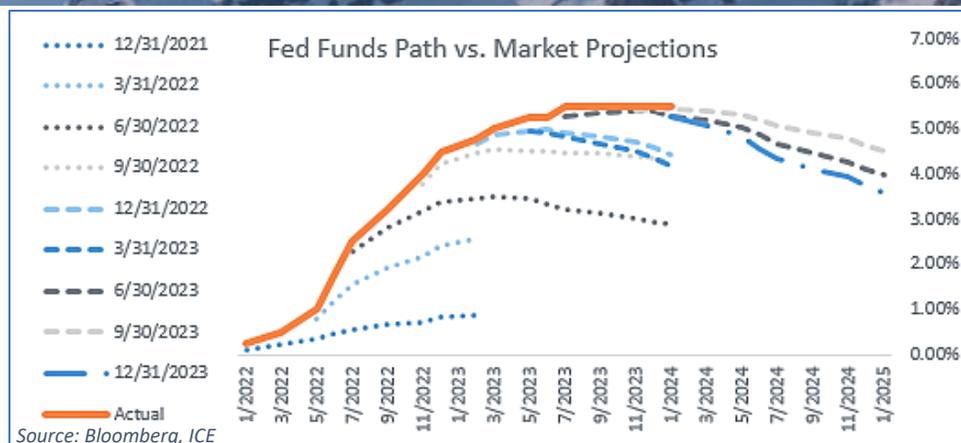
Fixed Income

Bonds traded sideways as the 10-year Treasury yield bounced between 3.9% and 4.2% before finishing the month little changed from year end at 3.97%. Rate volatility is nothing new to bond investors as markets attempt to nail down the Fed's path in 2024 after undershooting with their rate projections in 2023. Treasury rate volatility, as gauged by the MOVE index, has been elevated since the onset of the current Fed tightening cycle, and seems unlikely to abate in the near-term.

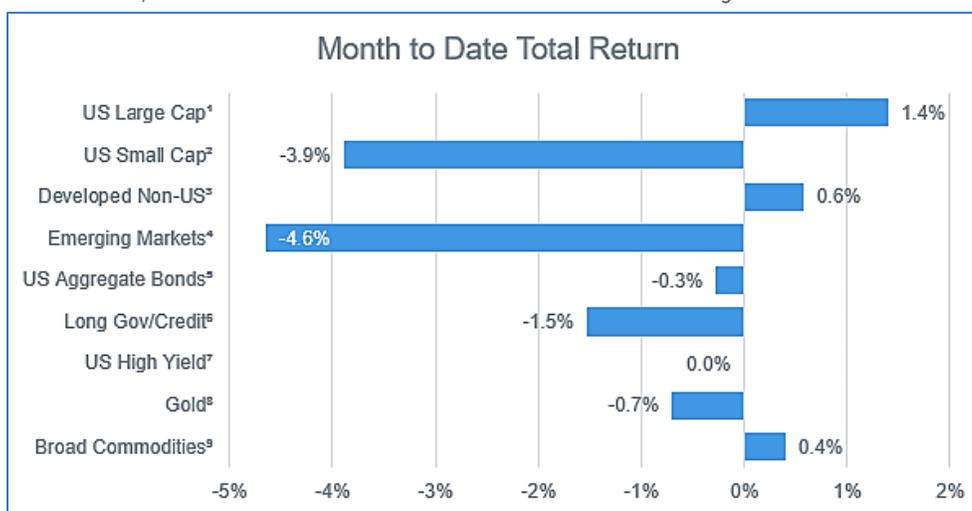


Market Trends

As of January 31, 2024



Rate movements negated carry for credit, which outperformed treasuries for the month. High yield returns were flat, and core bonds fell 0.3% to kick off the year.



	1M	3M	1Y	3Y	5Y	10Y
US Large Cap ¹	1.4%	16.3%	20.2%	9.8%	14.0%	12.3%
US Small Cap ²	-3.9%	17.6%	2.4%	-0.8%	6.8%	7.0%
Developed Non-US ³	0.6%	15.8%	10.0%	4.6%	6.9%	4.8%
Emerging Markets ⁴	-4.6%	7.0%	-2.9%	-7.5%	1.0%	2.9%
US Aggregate Bonds ⁵	-0.3%	8.2%	2.1%	-3.2%	0.8%	1.6%
Long Gov/Credit ⁶	-1.5%	16.8%	-1.0%	-8.2%	0.4%	2.7%
US High Yield ⁷	0.0%	8.4%	9.3%	1.9%	4.4%	4.5%
Gold ⁸	-0.7%	3.0%	5.7%	3.0%	8.1%	4.3%
Broad Commodities ⁹	0.4%	-4.5%	-7.1%	10.0%	6.2%	-1.1%

1 – Russell 1000, 2 – Russell 2000, 3 – MSCI EAFE, 4 – MSCI Emerging Markets, 5 – Bloomberg US Agg, 6 – Bloomberg US Long Gov/Credit
7 – Bloomberg US Corporate High Yield, 8 – Bloomberg Gold Subindex, 9 – Bloomberg Commodity

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Disclosure Statements

Bloomberg

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FTSE Russell

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