

Capital Markets Flash Report

US Equity Markets	Jan-10	Y-T-D
Large Stocks:		
S&P 500	-3.60%	-3.60%
Russell 3000	-3.60%	-3.60%
Russell 1000	-3.60%	-3.60%
Russell 1000 Growth	-4.36%	-4.36%
Russell 1000 Value	-2.81%	-2.81%
Small Stocks:		
Russell 2500	-3.35%	-3.35%
Russell 2000	-3.68%	-3.68%
Russell 2000 Growth	-4.47%	-4.47%
Russell 2000 Value	-2.93%	-2.93%
International Equity Markets**		
MSCI EAFE	-4.40%	-4.40%
MSCI EAFE Growth	-4.22%	-4.22%
MSCI EAFE Value	-4.59%	-4.59%
MSCI Europe	-5.90%	-5.90%
MSCI Japan	1.90%	1.90%
MSCI Emerging Markets	-5.56%	-5.56%
Hedge Fund Markets***		
HFRX Indexes:		
Convertible Arbitrage	0.54%	0.54%
Distressed	1.19%	1.19%
Equity Hedge	-0.68%	-0.68%
Equity Market Neutral	-0.26%	-0.26%
Event Driven	0.64%	0.64%
Macro	-2.09%	-2.09%
Relative Value Arbitrage	1.55%	1.55%
US Fixed Income Markets		
U.S. Treasury Bonds ⁽¹⁾	1.85%	1.85%
Treasury Inflation-Protected Securities ⁽²⁾	1.49%	1.49%
Tax-Exempt Bonds ⁽³⁾	0.22%	0.22%
Corporate Bonds ⁽⁴⁾	1.87%	1.87%
High-Yield Bonds ⁽⁵⁾	0.18%	0.18%
Real Asset Markets		
DJ UBS Commodity Index Total Return	-7.28%	-7.28%
FTSE NAREIT Equity Index	-5.21%	-5.21%

Overview

Earnings announcements were all over the map in January with misses outweighing positive surprises. GDP growth in the 4th quarter jumped to an annualized rate of 5.7%, much of that due to businesses rebuilding their inventories. On the other hand, the unemployment level is still hovering around 10% with the number of discouraged workers growing. Employers reportedly constricted the expansion of workers' pay in 2009 to a 1.5% trickle --- the lowest increase since data was first gathered in 1982. This bodes well for corporate profits over the near term but longer term will keep consumer spending in check. Greece continued to struggle and faces mixed signals from the EU and its constituents on whether or not a bailout package is on the way.

US Equity

We saw another uncharacteristically big move for utilities in January, this time into the red (down 6.3%), giving back some of the gains that they accumulated over the last quarter of 2009. Producer durables did reasonably well though, supported by Ford Motor Company's earnings. *Positive annual earnings for a Detroit automaker? Who knew it could be done (especially without government aid)?* Healthcare was the best performing sector, gaining 0.5%. Banking equities continue to be a volatile sub-sector of the financial sector returning over 9% in January!

International Equity

While US markets had a bad month, the negative returns of most non-US Developed and Emerging Markets were just plain ugly. The emerging market all-stars of 2009 had a very rough start to the new year. Brazil was down 11% in January. China lost 8.6%. India dropped 5.3%.

Large developed economies fared very poorly as well. Germany, the anchor of the Continental European economy, was down 8.6%. Commodity sensitive countries were hit hard too, with Australia and Canada falling roughly 7% each.

Hedge Funds

In 2010, hedge funds seem poised to resume business as usual (assuming there is such a thing for this asset class). Early discussions with fund managers indicate that inflows should provide a significant source of stability for these funds in the year(s) ahead. With greater inflows and rising confidence though, comes the risk of crowded trades and herding behavior.

Hedge funds in 2009 were also negatively impacted by relatively large cash positions held in the early part of 2009 when many investors were seeking redemptions. In the year ahead we expect to see less of a cash drag on performance for the entire industry.

Fixed Income

It seems like much of the excitement in fixed income this past month was centered on the Greek peninsula. Yields on 10-year Greek sovereign debt have soared beyond 7% in recent days. That is a spread of nearly 4% over comparable maturity German debt.

US TIPS and nominal Treasuries generated positive gains as investors again sought safety in these bonds despite their low yields. The US Federal Reserve sent mixed signals to the market. On the one hand, they indicated a willingness to keep interest rates low so as to not upset a fragile economic recovery. On the other hand, vice chair Donald Kohn warned banks not to get too comfortable borrowing short and investing in longer-dated treasuries.

Real Assets

Commodity prices fell sharply this past month. Crude oil dropped 8%, settling below \$73 per barrel. Gold was slightly negative while copper fell almost 9%. Increasingly, we are seeing evidence of the strong link between China's economic policy and commodity prices. As China upped its banking reserve requirements, commodities prices fell. Further speculation that China will raise interest rates (another measure to reign in excessive lending) sent commodity prices even lower.

Despite record cold temperatures across the US this past month, natural gas prices actually fell 8%. The supply and demand dislocation continues to hurt this commodity. REITS lost 5.2% in January.

(1) Fidelity Spartan Intermediate Treasury Bond Index is used as a proxy for intermediate US Treasury bond funds. (2) Vanguard Inflation-Protected Securities Fund is used as a proxy for US Treasury Inflation Protected Securities funds. (3) Vanguard Intermediate-Term Tax-Exempt Fund is used as a proxy for tax-exempt bond funds. (4) Vanguard Intermediate-Term Investment Grade Bond Fund (Admiral shares) is used as a proxy for intermediate corporate bond funds. (5) Vanguard High-Yield Corporate Fund is used as a proxy for high-yield corporate bond funds.

*Data Source: Bloomberg ** The MSCI returns are gross returns calculated in US Dollars. *** Hedge Fund Index returns are reported using Simple Price Appreciation and are only available on a one day lag. For complete Index Descriptions, please go to <http://www.greycourt.com/indices.html>