

Capital Markets Flash Report

US Equity Markets	Jun-09	Y-T-D	
Large Stocks:			
S&P 500	0.20%	3.16%	<p>June ended the quarter on a positive note albeit far more muted than returns enjoyed in the prior few months. This month we saw a significant migration from high beta risk sectors such as financials (-2.15% during the month), energy (-5.13%) and materials (-4.85%) toward defensive areas such as technology (+4.40%), utilities (+3.27%), and health care (+2.76). The broader market indexes mirrored this defensive migration with growth outperforming value in all capitalization ranges. We are now on the verge of testing the recent bull run, first put into motion by a non-armageddon outcome and then driven further on early signs of economic "green shoots" and hope for a "V" shaped recovery beginning in the second half.</p>
Russell 3000	0.34%	4.20%	
Russell 1000	0.24%	4.32%	
Russell 1000 Growth	1.12%	11.53%	
Russell 1000 Value	-0.74%	-2.87%	
Small Stocks:			<p>Our view is that while investors are justified to cheer a decrease in the rate of economic decay, we have seen precious few encouraging signs that point toward sustainable growth even if we do find an economic bottom in the near-term. We believe that the equity markets are beginning to acknowledge this in the offsetting move to less risky sectors.</p>
Russell 2500	1.13%	6.52%	
Russell 2000	1.47%	2.64%	
Russell 2000 Growth	3.24%	11.36%	
Russell 2000 Value	-0.32%	-5.17%	
Hedge Fund Markets			
HFRX Indexes: **			<p>After a banner recovery for hedge funds during the first five months of the year, the month of June was less kind. Heavily dislocated strategies such as convertible arbitrage and relative value continued to move back into line but other strategies faltered as the powerful rebound of March to May slowed significantly. Hedge managers who were long financials or energy/commodities encountered headwinds especially if they had been short defensive names. The popular inflation/reflation trades stalled out with the US Dollar finding near-term support and Treasury auctions going better than had been expected. Oil seems to have settled comfortably into the \$70 range while gold has settled in the low \$900s. Macro managers who were following the momentum of rising commodity/falling Dollar trends underperformed significantly and it is notable that macro, the best performing hedge class of 2008, is near the bottom in 2009. The majority of fundamental L/S macro managers are generally bearish on the recovery and this is mirrored in many managers remaining toward the bottom of their historical range in risk exposure.</p>
Absolute Return	-0.89%	-2.27%	
Convertible Arbitrage	1.57%	20.56%	
Distressed	-0.89%	-7.30%	
Equity Hedge	-0.58%	6.49%	
Equity Market Neutral	-1.02%	-3.52%	
Event Driven	1.88%	8.87%	
Macro	-3.04%	-5.69%	
Market Directional	1.14%	12.81%	
Relative Value Arbitrage	2.94%	16.09%	
International Equity Markets			
MSCI Indexes: ***			<p>As previously mentioned the US Dollar stopped its post-March decline this month. While continuing to decline against the Pound, the Dollar strengthened slightly against the Euro, Yen and even the "commodity/reflation/global growth themed" Russian Ruble. The change in direction in the foreign exchange markets mirrors the risk being taken off the table in the equity markets. Where emerging markets had rallied strongly year-to-date they gave up ground in June. While EAFE Value remains significantly ahead of its Growth counterpart year-to-date, it also under-performed in June. Japan, a traditional safe haven which lagged most of this year, was one of the bright spots posting positive returns for the month.</p>
MSCI EAFE	-0.54%	8.42%	
MSCI EAFE Growth	-0.11%	6.73%	
MSCI EAFE Value	-0.96%	10.15%	
MSCI Europe	-1.92%	7.69%	
MSCI Japan	1.76%	2.67%	
MSCI Emerging Markets	-1.33%	36.22%	
US Fixed Income Markets			
Taxable Bond Funds ⁽¹⁾	0.55%	2.18%	<p>Fixed income markets have been active recently with both high yield and investment grade corporates enjoying another month of price appreciation. Treasuries were mostly flat for the month while municipals sold off. There is little doubt that headline news about issues regarding financing shortfalls at the state and local government levels (think California) are going to keep volatility high in the tax-free space.</p>
Tax Exempt Bond Funds ⁽²⁾	-0.97%	4.78%	
High Yield Bond Funds ⁽³⁾	1.70%	19.75%	

⁽¹⁾ Vanguard Total Bond Market Index Fund is used as a proxy for taxable bonds.

⁽²⁾ Vanguard Intermediate-Term Tax-Exempt Fund is used as a proxy for tax-exempt bonds.

⁽³⁾ Vanguard High Yield Fund is used as a proxy for high yield bonds.

*Source: Bloomberg, MSCI, and Russell

** Hedge Fund Index returns are reported using Simple Price Appreciation and are only available on a one day lag.

*** The MSCI returns are calculated in US Dollars.

For complete Index Descriptions, please go to <http://www.greycourt.com/indices.html>