GREYCOURT

For the Month Ending February 29, 2012

Capital Markets Flash Report

US Equity Markets	Feb-12	YTD
Large Stocks:		
S&P 500	4.32%	9.00%
Russell 3000	4.23%	9.49%
Russell 1000	4.39%	9.48%
Russell 1000 Growth	4.78%	11.04%
Russell 1000 Value	3.99%	7.92%
Small Stocks:		
Russell 2500	3.71%	10.60%
Russell 2000	2.39%	9.63%
Russell 2000 Growth	3.29%	11.02%
Russell 2000 Value	1.49%	8.23%
International Equity Markets**		
MSCI EAFE	5.77%	11.43%
MSCI EAFE Growth	6.05%	11.86%
MSCI EAFE Value	5.48%	11.00%
MSCI Europe	6.37%	11.39%
MSCI Japan	5.05%	9.80%
MSCI Emerging Markets	6.01%	18.05%
Hedge Fund Markets***		
HFRX Indexes:		
Convertible Arbitrage	0.98%	3.14%
Distressed	1.91%	5.07%
Equity Hedge	1.47%	3.57%
Equity Market Neutral	-0.72%	-0.32%
Event Driven	2.30%	5.16%
Macro	0.66%	0.75%
Relative Value Arbitrage	1.21%	2.96%
US Fixed Income Markets		
U.S. Treasury Bonds (1)	-0.87%	0.09%
Treasury Inflation-Protected Securities (2)	-0.43%	1.77%
Tax-Exempt Bonds (3)	-0.04%	2.17%
Corporate Bonds (4)	0.60%	2.87%
High-Yield Bonds (5)	1.88%	4.80%
Real Asset Markets		
DJ UBS Commodity Index Total Return	2.70%	5.24%
FTSE NAREIT Equity Index	-0.91%	5.39%

Overview

Yesterday, the ECB offered €530 billion in loans to aid Eurozone banks. This month, the ECB also bailed out Greece (again). Bond holders (mainly Eurozone banks) are set to take a massive haircut on their Greek debt. For now, it appears market fears have been quelled.

Fourth quarter US GDP growth was revised up to 3.0% (prior estimate of 2.8%). In February, the Case Shiller housing price index came in unexpectedly weak. Durable goods orders dropped 4% (artificially-driven by the expiration of stimulus tax credits in December). The good news is that consumer confidence soared in February, nearing 2008 levels. However, the same survey indicated that consumers are planning to make fewer home and auto purchases in the coming months. The really bad news is that gasoline prices have risen dramatically over the last month, now approaching $4 per gallon across the US. So, despite lower heating bills (particularly in the Northeast US) and a continuation of the payroll tax cut, higher gas prices may still drive consumer spending lower.

US Equity

Earnings season for the S&P 500 wrapped up with an earnings "beat rate" just below its historical average. Not too bad. The S&P 500 returned 4.3%, led by energy and technology stocks (mainly big oil and Apple). With these moves, US exchanges are now trading around 2011 highs and in some cases multi-year highs. Small caps lagged large caps by 200 bps this month as selling pressure in the final trading session hit small caps particularly hard.

International Equity

The MSCI EAFE Index continued to climb this month, outpacing US large caps by 1.5%. A stronger Euro in 2012 (up 2.7%) has boosted EAFE returns for US investors. The DAX was particularly strong, adding 8.4% this month, bringing its YTD return to 20%! The 11% return in January for Emerging Markets was a difficult act to follow. Still EM equities rose a healthy 6%. Equities in China and India returned in line with the broader benchmark while oil-sensitive Russian stocks surged nearly 10%. Economic growth in India cooled to just above 6% in the latest reading, well below expectations.

Hedge Funds

Given the sizeable rally in equity markets this month, long-short strategies were rewarded to the extent that they carried positive net exposure. Distressed strategies continued to benefit from improved marks, particularly on distressed RMBS. M&A/restructuring activity has been subdued so far in 2011, leading to a limited opportunity set for event-driven strategies. The strong performance of the Event-Driven index was likely from gains in distressed investments. Macro managers continue to emphasize tail risk hedges and other protective positioning that has led to underwhelming performance so far in 2012.

Fixed Income

TIPS continue to draw more demand than nominal Treasuries. This month both lost ground but TIPS were closer to flat. Last month we commented that given "the Fed's latest announcement on short rates, we don't expect this flight to US dollar assets to continue much longer and once again, we should see less correlated returns between risk-free Treasuries and risky equities in the months ahead". So far, so good but one, it's early. Two, it may seem that we are being critical of the Fed but the reality is that it is achieving an important goal: boost risk asset prices through less attractive bond yields. High yield is now up 4.8% YTD after a 1.9% return in February.

Real Assets

Gold fell for the month after yesterday's sharp selloff. However, WTI crude oil was the big mover this month, up 8.3%, as the potential for Mid-East turmoil has led to an uptick in speculative trading. The spot price for natural gas was relatively steady this month but the overall negative trend persists. Soft commodities were mixed in February with soybeans up big, corn and wheat flat. Base metals added several percentage points. REITs were basically even for the month as weak housing data kept demand for these high yielding issues in check.

(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