GREYCOURT

For the Month Ending March 31, 2012

# Capital Markets Flash Report

| US Equity Markets | Mar-12 | YTD |
|---|---|---|
| **Large Stocks:** | | |
| S&P 500 | 3.29% | 12.59% |
| Russell 3000 | 3.08% | 12.87% |
| Russell 1000 | 3.14% | 12.91% |
| Russell 1000 Growth | 3.29% | 14.69% |
| Russell 1000 Value | 2.96% | 11.12% |
| **Small Stocks:** | | |
| Russell 2500 | 2.15% | 12.99% |
| Russell 2000 | 2.56% | 12.44% |
| Russell 2000 Growth | 2.03% | 13.28% |
| Russell 2000 Value | 3.10% | 11.59% |
| **International Equity Markets**** | | |
| MSCI EAFE | -0.40% | 10.98% |
| MSCI EAFE Growth | 0.22% | 12.10% |
| MSCI EAFE Value | -1.03% | 9.85% |
| MSCI Europe | -0.52% | 10.81% |
| MSCI Japan | 1.41% | 11.35% |
| MSCI Emerging Markets | -3.32% | 14.14% |
| **Hedge Fund Markets***** | | |
| **HFRX Indexes:** | | |
| Convertible Arbitrage | -0.05% | 3.59% |
| Distressed | 0.53% | 5.74% |
| Equity Hedge | 0.25% | 3.78% |
| Equity Market Neutral | -1.29% | -1.71% |
| Event Driven | 0.45% | 5.70% |
| Macro | -1.60% | -1.29% |
| Relative Value Arbitrage | 0.07% | 3.35% |
| **US Fixed Income Markets** | | |
| U.S. Treasury Bonds (1) | -1.29% | -1.20% |
| Treasury Inflation-Protected Securities (2) | -1.02% | 0.73% |
| Tax-Exempt Bonds (3) | -0.94% | 1.21% |
| Corporate Bonds (4) | -0.46% | 2.40% |
| High-Yield Bonds (5) | -0.50% | 4.30% |
| **Real Asset Markets** | | |
| DJ UBS Commodity Index Total Return | -4.14% | 0.89% |
| FTSE NAREIT Equity Index | 4.84% | 10.49% |

## Overview

What a quarter! Global equity indices are all up double digits so far in 2012. Economic data in the US has been mildly positive. US consumer spending rose 0.8% in February with the jobless rate of 8.3% unchanged from January.

As for Europe? Not as positive. In fact, European leaders agreed to raise emergency lending limits in a proactive attempt to support Spain and Italy. Spain has proposed its own austerity measures, sparking Greek-like protests by the masses that are already face a daunting 25% unemployment rate. Markets rebounded (tepidly) on the final trading day of the quarter as news about the rescue fund was released.

## US Equity

Financial services and technology stocks led the S&P 500 to a 3.3% gain in March. The energy sector was the worst performer, falling over 3% and adding to YTD losses. Small caps kept pace with large caps in March and for the year. Performance within both the financials and energy sectors was quite disparate by market capitalization; small energy and large financials rallied strongly this month while big energy and small financials faltered.

The S&P 500 continues to make new highs with very low volatility, suggesting that the rally beginning Oct. 3rd has some steam left.

## International Equity

International and Emerging Markets equities struggled this month, dropping 0.4% and 3.3%, respectively. The two bright spots for the EAFE Index were Germany, up about 1% and Japan, which rose 1.4%. It was an eventful month for capital markets in Japan, as JGBs sold off, the Yen weakened considerably, and equities rallied.

Emerging markets were led down by China and India. Exports from China have slowed considerably on lower European consumption. India is still grappling with high inflation but food inflation (a major component of the EM consumer budget) has eased in recent months.

## Hedge Funds

Hedge managers continue to run low net exposure, high gross, remaining relatively cautious throughout the recent run in asset prices. Long-short equity managers have lagged equity indices year-to-date by a wide margin for this reason. Global macro strategies (as a group) have been the real disappointment in 2012 with the cost of hedge and tail-risk positions outweighing the benefits so far. Distressed and event-driven managers have posted solid YTD results, benefitting from gains in post-reorganization equity positions as well as an uptick in actual and rumored M&A activity.

## Fixed Income

Treasuries sold off heavily in March only to rebound after Ben Bernanke fed the flames of QE3 speculation once again. At its mid-month peak, the 10-year yield reached 2.4% before settling back to 2.1%. Other fixed income sectors performed poorly too as spreads didn't change much. High yield bonds dropped 50 bps this month but are still up 4.3% YTD.

## Real Assets

It was an ugly month for commodities as the DJ-UBS Commodity Index fell 4.1%. Rising stockpiles for industrial commodities in China coupled with guidance from BHP Billiton, which forecasted the leveling of Chinese iron demand in the decade ahead, touched off the selling pressure. Crude oil inventories in the US are also running above normal.

REITs posted solid gains once again in March, bringing the year-to-date return to 10.5%. The real estate market is still very soft by most measures (see KB Home results and latest Case Shiller data) but yield-hungry investors continue to drive REIT prices higher as the Fed has promised low short rates until late 2014.

(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

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