GREYCOURT

For the Month Ending June 30, 2012

Capital Markets Flash Report

US Equity Markets	Jun-12	YTD
Large Stocks:		
S&P 500	4.12%	9.49%
Russell 3000	3.92%	9.31%
Russell 1000	3.84%	9.40%
Russell 1000 Growth	2.72%	10.08%
Russell 1000 Value	4.96%	8.68%
Small Stocks:		
Russell 2500	3.64%	8.31%
Russell 2000	4.99%	8.53%
Russell 2000 Growth	5.16%	8.81%
Russell 2000 Value	4.82%	8.24%
International Equity Markets**		
MSCI EAFE	7.05%	3.38%
MSCI EAFE Growth	5.46%	4.19%
MSCI EAFE Value	8.66%	2.49%
MSCI Europe	7.98%	3.00%
MSCI Japan	5.15%	3.23%
MSCI Emerging Markets	3.91%	4.12%
Hedge Fund Markets***		
HFRX Indexes:		
Convertible Arbitrage	0.33%	3.55%
Distressed	-0.53%	3.23%
Equity Hedge	-0.10%	0.55%
Equity Market Neutral	-1.67%	-5.17%
Event Driven	-0.75%	2.80%
Macro	-0.21%	-0.73%
Relative Value Arbitrage	-0.30%	1.84%
US Fixed Income Markets		
U.S. Treasury Bonds (1)	-0.44%	2.69%
Treasury Inflation-Protected Securities (2)	-0.61%	4.00%
Tax-Exempt Bonds (3)	-0.18%	2.88%
Corporate Bonds (4)	0.48%	4.71%
High-Yield Bonds (5)	2.05%	6.52%
Real Asset Markets		
DJ UBS Commodity Index Total Return	5.49%	-3.70%
FTSE NAREIT Equity Index	5.97%	14.91%

Overview

In June, 1st quarter US GDP was confirmed at an unimpressive 1.9% growth rate, analysts continued to cut corporate earnings estimates and the Fed rather quietly extended Operation Twist through 2012.

To the surprise of many political pundits, the US Supreme Court did not strike down the individual mandate of the Health Care Act last week, failing to head off CBO-projected overruns and higher taxes for the middle class. Markets sold off on that news as well as legitimate concerns regarding Spanish solvency. On Friday, EU leaders announced the formation of a bank supervisory board and efforts to reduce borrowing costs for Italy and Spain; judging by the ensuing massive rally, the market wasn't expecting much from EU leadership.

US Equity

The S&P 500 showed signs of stabilization in June with selling pressure easing after a sharp decline to start the month. After a short-lived bounce mid-month, stocks rose on Friday's positive news from Europe, netting a 4.1% gain for the month. Small caps led large caps by 90 bps. Relative weakness continued in the materials sector but energy names were lifted out of the red for the month by Friday's oil surge.

International Equity

The Euro strengthened modestly this month leading up to Friday's summit news but there didn't seem to be much conviction on either side of the trade until EU leaders agreed on a path to assist Spanish and Italian banks. In the latest reading, Japan's industrial production fell over 3% as auto sales to Europe and Asia were weak. Emerging market equities added 3.9% this month led by solid gains in India and Russia. South Korea is working to stimulate growth and China seems to be headed in that direction as well. With gains this month, EAFE is now up 3.4% year-to-date and EM is up 4.1%.

Hedge Funds

It is difficult to get a read on full hedge fund performance this month as some of the biggest moves happened last Friday. Still, based on the performance estimates through last Thursday, it was a rather pedestrian month for most hedge strategies. Tail-risk hedging strategies expressed through Eurozone CDS were likely big winners in June until a 5-10% drop in riskier credits on Friday. Most of the action in Euro sovereign debt was focused on shorter paper as long-term yields on German, Spanish, and Italian paper did not move much last week – indicative of the short-term effect of the new stability measures. A massive acquisition was announced last week as Anheuser Busch InBev bought Grupo Modelo, maker of Corona beer, for $20 billion. Corporate efforts to enhance profits/synergies through inorganic growth should persist given headwinds to real growth.

Fixed Income

High yield debt appreciated by 2% in June. Spreads for investment-grade corporate bonds tightened modestly this month and it appears that Operation Twist Extension 2012 was largely anticipated by market participants. US Treasuries have stagnated a bit at current levels with the 10-Year Treasury yielding a measly 1.65%; that's an improvement over sub-1.5% yields in early June. Across the Atlantic, Spanish and Italian bond yields spent most of the month climbing higher, reaching dangerous levels before rate pressure eased a bit last week.

Real Assets

Oil jumped 9% last Friday to erase most of its month-to-date losses. This drove the commodity index to a 5.5% return. Natural gas continues to rebound sharply on signs of somewhat tighter supply, domestic initiatives that may boost demand and warmer temperatures across the US. Copper rose about 4% while agriculture was strongly higher. Gold prices have weakened over the past several months along with the broader commodity index but we are seeing support in the mid-1500's per ounce. This month's actions by the US Federal Reserve and EU brought back some gold buyers. REITs added 6% in June and are now up nearly 15% YTD!

(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