GREYCOURT

For the Month Ending July 31, 2012

Capital Markets Flash Report

US Equity Markets	Jul-12	YTD
Large Stocks:		
S&P 500	1.39%	11.01%
Russell 3000	0.99%	10.40%
Russell 1000	1.19%	10.70%
Russell 1000 Growth	1.34%	11.55%
Russell 1000 Value	1.03%	9.80%
Small Stocks:		
Russell 2500	-0.68%	7.57%
Russell 2000	-1.38%	7.03%
Russell 2000 Growth	-1.74%	6.92%
Russell 2000 Value	-1.02%	7.13%
International Equity Markets**		
MSCI EAFE	1.15%	4.56%
MSCI EAFE Growth	1.72%	5.97%
MSCI EAFE Value	0.59%	3.10%
MSCI Europe	1.14%	4.18%
MSCI Japan	-2.39%	0.76%
MSCI Emerging Markets	2.02%	6.22%
Hedge Fund Markets***		
HFRX Indexes:		
Convertible Arbitrage	0.84%	4.85%
Distressed	0.28%	3.33%
Equity Hedge	0.60%	1.79%
Equity Market Neutral	-0.34%	-5.29%
Event Driven	0.20%	3.19%
Macro	1.45%	-0.38%
Relative Value Arbitrage	-0.21%	1.91%
US Fixed Income Markets		
U.S. Treasury Bonds (1)	1.11%	3.84%
Treasury Inflation-Protected Securities (2)	1.88%	5.96%
Tax-Exempt Bonds (3)	1.38%	4.31%
Corporate Bonds (4)	2.06%	6.89%
High-Yield Bonds (5)	2.06%	8.74%
Real Asset Markets		
DJ UBS Commodity Index Total Return	6.47%	2.53%
FTSE NAREIT Equity Index	2.17%	17.40%

Overview

Last week, dovish comments by ECB president Draghi drove risk markets sharply higher. Yesterday, German finance officials dampened the enthusiasm by questioning the power of the ECB to refinance the sovereign debt of countries like Spain. The perpetual mixed message from European leaders is anything but encouraging for investors. With any luck, more clarity will come tomorrow as the ECB announces policy steps.

2nd quarter US GDP growth came in slightly ahead of anemic expectations (1.5% actual versus 1.3% estimate). The Federal Reserve will wrap up its latest meeting today where further easing is expected to be announced. We are just over halfway through earnings season and implied future volatility for the S&P 500 has ticked up over the past two trading days, likely in response to the Federal Reserve and ECB meetings.

US Equity

The S&P 500 was fairly volatile in July, dropping twice intra-month to the 1325-1330 range but continuing to post “higher lows”, indicating positive momentum. Analysts and investors have responded favorably to slightly better than expected earnings data so far. The biggest surprise has been the preponderance of negative guidance for the balance of 2012. For now, investors seem to be shrugging off that data. Small caps posted a small loss this month and now trail large caps by 400 basis points on the year.

International Equity

It was another bad month for the Euro, which lost 3% versus the US dollar. Still, European equities were able to make up the currency loss for US investors and matched the monthly return of the S&P 500 on a net currency basis. Weak performance in Japan (-2.4%) offset relative strength from Europe and Australia. As a result, the MSCI EAFE Index added just 1.1%.

Emerging market equities were up 2% this month, supported by relative strength in Russia while India lagged. Chinese equities have stumbled recently as investors fret over growth prospects and food inflation. Emerging market equity valuations are quite attractive at these levels but still far from the absolute lows reached in 2008. It is apparent now that Chinese growth will not be coming from export and real estate sensitive industries. As a result, government spending and consumption will need to plug the gap in order to maintain high-single-digit GDP growth.

Hedge Funds

On average, hedge strategies posted modest gains in July. Many hedge managers are continuing to run low net exposure as the macroeconomic environment, particularly as it relates to Eurozone debt, necessitates insurance against volatility spikes/drawdowns in equities. RMBS and CMBS strategies have done particularly well this year as spreads have narrowed considerably. The environment for stock pickers has also improved as we are seeing sustained dispersion within and among equity sectors. M&A activity continued at a pretty good clip in July as organic growth has been tough to come by (see corporate top line misses for Q2 so far).

Fixed Income

It was a solid month for high quality bonds as investment grade corporate debt, Treasuries, and municipal bonds all returned over 1%. The 10-year Treasury is yielding less than 1.5% now as investors suspect that the Fed will purchase additional government and real estate bonds this fall. High yield debt extended its impressive run, adding nearly 2% in July and bringing its year-to-date total return to nearly 9%. We have also seen some recent improvement in the Eurozone with Spanish 10-year bond yields dropping from 7.5% to 6.5% and German Bunds rallying strongly this month.

Real Assets

Commodities raged in July, adding 6.5%. Much of this gain was driven by huge spikes in agricultural commodities; spot prices for corn, wheat, and soybeans were all up 15% or more this month as drought conditions have persisted across much of the US. Oil wrapped up an erratic trading month with a 3% gain. High-yielding REITs continued their high wire act in July and are now up over 17% in 2012. Bottom-confirming signs in real estate coupled with cheap leverage driving outsized dividends have made this market unstoppable over the past several quarters.

(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