GREYCOURT

For the Month Ending August 31, 2012

Capital Markets Flash Report

US Equity Markets	Aug-12	YTD
Large Stocks:		
S&P 500	2.25%	13.52%
Russell 3000	2.50%	13.15%
Russell 1000	2.43%	13.39%
Russell 1000 Growth	2.69%	14.55%
Russell 1000 Value	2.17%	12.18%
Small Stocks:		
Russell 2500	3.59%	11.43%
Russell 2000	3.34%	10.60%
Russell 2000 Growth	3.59%	10.76%
Russell 2000 Value	3.08%	10.43%
International Equity Markets**		
MSCI EAFE	2.70%	7.38%
MSCI EAFE Growth	1.95%	8.04%
MSCI EAFE Value	3.44%	6.64%
MSCI Europe	4.42%	8.78%
MSCI Japan	-0.72%	0.03%
MSCI Emerging Markets	-0.29%	5.92%
Hedge Fund Markets***		
HFRX Indexes:		
Convertible Arbitrage	0.27%	5.47%
Distressed	-0.35%	3.14%
Equity Hedge	0.61%	2.36%
Equity Market Neutral	-0.17%	-5.19%
Event Driven	0.80%	4.08%
Macro	-0.33%	-0.67%
Relative Value Arbitrage	0.06%	2.22%
US Fixed Income Markets		
U.S. Treasury Bonds (1)	0.00%	3.85%
Treasury Inflation-Protected Securities (2)	-0.25%	5.69%
Tax-Exempt Bonds (3)	0.18%	4.50%
Corporate Bonds (4)	0.38%	7.31%
High-Yield Bonds (5)	0.84%	9.68%
Real Asset Markets		
DJ UBS Commodity Index Total Return	1.30%	3.86%
FTSE NAREIT Equity Index	0.12%	17.54%

Overview

Second quarter GDP growth was revised up to 1.7% versus the prior estimate of 1.5%. Investors weren't terribly impressed by that revision and spent most of the month trying to handicap the outcome of last Friday's Jackson Hole speech. During his speech, Mr. Bernanke acknowledged the sour state of employment and emphasized the need for more "QE". Markets responded favorably in the last trading day of the month. Still on tap in the weeks ahead are another policy announcement from the ECB and an FOMC meeting.

Republican leaders met in Tampa last week to officially endorse the Romney/Ryan ticket for this November's presidential election. As expected, little progress has been made in our nation's capital towards resolving the country's pressing fiscal issues. Unfortunately, it looks like we will have to wait until the election is decided for any real clarity on tax rates and spending policies.

US Equity

The S&P 500 posted a hesitant gain of 2.3% in August by way of a low-volume melt-up (a sizeable gain nonetheless). The large cap benchmark also flirted with its 2012 high but couldn't seem to break out of its range as mixed data and thin trading provided little momentum. Small caps led large caps in August and are now up 10.6% YTD, just 200 bps behind large caps. Large cap tech stocks, led by Apple, have added over 19% year-to-date while the energy stocks have only managed a 3% gain.

International Equity

Some optimism crept back into European equities this month as investors snapped up value stocks and the beleaguered Euro added 2.2% versus the US dollar. Developed international equities led by Europe, added 2.7% this month. Emerging markets sold off modestly, counter to gains in most other equity markets. Concerns over drought-driven food inflation and slowing growth seem to be keeping EM bulls on the sidelines (for now).

Hedge Funds

August marked another month of modest gains for most hedge funds. It has been a lackluster year for global macro strategies on the whole but it will be interesting to see how these funds fare for the balance of 2012, as volatility has been particularly low in the final weeks of summer and the European front has been "mostly quiet" with the exception of a €5B bailout for Spain's 3rd largest Spanish bank, Bankia – its second bailout since 2010. Trends of increased dispersion amongst equity returns and solid M&A should continue to benefit long-short and event-driven strategies while we expect credit managers may find the environment more challenging ahead as spread products have run quite a bit.

Fixed Income

Fixed income results were mixed this month. Intermediate Treasury notes were flat while TIPS sold off a bit. The ten-year Treasury yield is now 1.6%. Munis were up slightly this month. Speculative-grade issues (high yield bonds) rallied in step with equities and have now returned nearly 10% year-to-date. While we don't have immediate concerns about rising defaults, spreads in this space are notably less attractive than they were at outset of 2012.

Real Assets

Despite some big moves from individual commodities this month, the DJ-UBS Commodity Index added a quiet 130 basis points. Crude oil spiked on Middle East saber-rattling, US inventory drawdown, and most recently, the threat of Hurricane Isaac. Natural gas prices fell by 13% this month as temperatures moderated in much of the US and production/stockpiles remained robust. REITs took a breather in August, finishing just a touch higher and are now up 17.5% in 2012 as yield-seekers have capitalized on cheap leverage and improved housing fundamentals.

(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