GREYCOURT

For the Month Ending October 31, 2012

Capital Markets Flash Report

US Equity Markets	Oct-12	YTD
Large Stocks:		
S&P 500	-1.85%	14.30%
Russell 3000	-1.73%	14.12%
Russell 1000	-1.68%	14.35%
Russell 1000 Growth	-2.92%	13.39%
Russell 1000 Value	-0.49%	15.17%
Small Stocks:		
Russell 2500	-1.05%	13.14%
Russell 2000	-2.17%	11.75%
Russell 2000 Growth	-3.11%	10.53%
Russell 2000 Value	-1.25%	12.93%
International Equity Markets**		
MSCI EAFE	0.84%	11.52%
MSCI EAFE Growth	0.39%	11.29%
MSCI EAFE Value	1.28%	11.65%
MSCI Europe	1.47%	13.67%
MSCI Japan	-1.87%	0.52%
MSCI Emerging Markets	-0.60%	11.66%
Hedge Fund Markets***		
HFRX Indexes:		
Convertible Arbitrage	-0.11%	5.50%
Distressed	-2.42%	0.95%
Equity Hedge	0.41%	3.83%
Equity Market Neutral	-0.05%	-5.43%
Event Driven	-0.80%	4.06%
Macro	-1.19%	-2.07%
Relative Value Arbitrage	-0.20%	2.60%
US Fixed Income Markets		
U.S. Treasury Bonds (1)	-0.54%	3.19%
Treasury Inflation-Protected Securities (2)	0.67%	6.98%
Tax-Exempt Bonds (3)	0.17%	5.39%
Corporate Bonds (4)	0.75%	9.06%
High-Yield Bonds (5)	1.00%	12.09%
Real Asset Markets		
DJ UBS Commodity Index Total Return	-3.87%	1.54%
FTSE NAREIT Equity Index	-0.25%	15.80%

Overview

Yesterday, US stock exchanges reopened after super storm Sandy forced a two-day market closure. The massive storm has claimed dozens of lives, left millions without power and caused $20 billion of property damage, and is expected to shave about 10-20 basis points off of Q4 GDP growth as a result of lost business output.

Earlier this month, the first estimate of 3rd quarter GDP growth came in at 2%, modestly exceeding forecasts. Most of the upside surprise was due to a spike in government spending on defense. Holding back GDP growth was a lack of business spending. Coupled with still growing cash piles for large corporations, it is clear that the uncertainty over future taxes, healthcare costs and regulations has caused CEOs to retrench. With any luck, some of this uncertainty will be resolved next Tuesday at the polls.

US Equity

In October, US stocks ended their impressive run of monthly gains dating back to June. Earnings season is in full swing with earnings beats running at a healthy 70% clip while revenues and earnings guidance have been disappointing. The broad-based equity selloff was led by technology giants like Google, Apple, Amazon, and Microsoft as all missed expectations in their latest earnings reports. In aggregate, the tech sector fell by 7% this month while the financial sector was one of the few bright spots (up 1%) on stronger housing data. Small caps slightly underperformed large caps this month and are now trailing large caps by 250 basis points for the year.

International Equity

International stocks were higher this month, aided by a stronger Euro (up 0.75% versus the US dollar). Japan equity performance now trails that of Europe by over 13 percentage points in 2012. Somewhat lost in the headlines this month have been the Troika's latest efforts to kick the Greece debt can down the road in time for the country's next scheduled bailout tranche. Greece is now in its sixth year of recession and the Eurozone is saddled with 11.6% unemployment.

Emerging market equities sold off this month but were down less than US equities as investors upped their bets on China. The Shanghai Composite Index added 5.7% in October and is now well-ahead of the broader MSCI EM Index year-to-date, after having trailed the EM benchmark for most of 2012.

Hedge Funds

Less-directional equity and credit strategies were the best performers in October as capital markets digested US earnings news and underwhelming global macroeconomic data. More-directional strategies generally lost ground alongside falling global equity prices. So far in 2012, credit strategies, particularly relative value, have been the clear winners in the hedge space. Tighter spreads on asset-backed securities will make it difficult for managers to generate similar gains in the months ahead. In light of weak top line growth and flat to negative earnings growth, we believe that inorganic growth trends like share repurchases and M&A activity as means to boost shareholder value will persist.

Fixed Income

Interest rates rose (modestly) across the yield curve this month causing a 0.5% loss on intermediate Treasuries, even as equity prices generally fell. So far this year, intermediate Treasuries have added 3.2% while TIPS and high-yield bonds have gained 7% and 12%, respectively. As the fiscal cliff approaches, local governments and municipal bond investors alike are at risk if the Federal tax exemption on municipal bond interest is eliminated.

Real Assets

After a stunning QE3-induced buying frenzy in September, industrial metal prices fell back to earth in October (hard). Aluminum, lead, nickel and zinc dropped 10%, 9%, 12.5% and 12%, respectively this month. Oil also fell amid weak demand and apparently, incredible/hollow threats from Iran to halt all oil exports in the face of ongoing U.N. sanctions. REITs appear to have lost their multi-year momentum as payouts are no longer increasing on the back of cheap leverage. However, better housing and likelihood of low interest rates for the perceivable future should provide pricing support.

(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