GREYCOURT

For the Month Ending November 30, 2012

Capital Markets Flash Report

US Equity Markets	Nov-12	YTD
Large Stocks:		
S&P 500	0.58%	14.96%
Russell 3000	0.78%	15.01%
Russell 1000	0.80%	15.26%
Russell 1000 Growth	1.67%	15.29%
Russell 1000 Value	-0.04%	15.13%
Small Stocks:		
Russell 2500	1.54%	14.87%
Russell 2000	0.53%	12.35%
Russell 2000 Growth	0.77%	11.38%
Russell 2000 Value	0.31%	13.28%
International Equity Markets**		
MSCI EAFE	2.43%	14.23%
MSCI EAFE Growth	2.93%	14.55%
MSCI EAFE Value	1.94%	13.81%
MSCI Europe	2.61%	16.63%
MSCI Japan	2.38%	2.90%
MSCI Emerging Markets	1.28%	13.08%
Hedge Fund Markets***		
HFRX Indexes:		
Convertible Arbitrage	0.46%	5.58%
Distressed	0.03%	0.40%
Equity Hedge	0.44%	4.30%
Equity Market Neutral	0.47%	-4.78%
Event Driven	0.25%	4.27%
Macro	0.14%	-1.80%
Relative Value Arbitrage	0.11%	2.16%
US Fixed Income Markets		
U.S. Treasury Bonds (1)	0.93%	4.17%
Treasury Inflation-Protected Securities (2)	0.50%	7.52%
Tax-Exempt Bonds (3)	1.49%	6.96%
Corporate Bonds (4)	0.17%	9.25%
High-Yield Bonds (5)	0.65%	12.83%
Real Asset Markets		
DJ UBS Commodity Index Total Return	0.05%	1.59%
FTSE NAREIT Equity Index	-0.27%	15.49%

Overview

On November 6th, US voters re-elected President Obama to his 2nd term in the Oval Office but Congressional power remains split between political parties, setting the stage for more brinksmanship over the fiscal cliff and debt ceiling. This past week 3rd quarter GDP growth was revised higher to 2.7% versus the prior estimate of 2.0%. As we stated a month ago, a big component of this was defense spending while the latest revision included unexpected upticks in trade and inventory levels. The consumer component was still a disappointment.

We expect that the current stalemate in DC will discourage some holiday shoppers and businesses looking to invest in capital and/or labor. So while policy risk is very high, the opportunity costs of lost expenditures and investments associated with this period of uncertainty could provide a negative shock to the market in the months ahead on top of the well-documented threat posed by the fiscal cliff. In Europe, finance ministers agreed to help reduce Greece's debt load and prevent an exit from the Eurozone (more debt for the EFSF, less debt for Greece).

US Equity

US equities experienced a sharp pullback after the US presidential election but equity values have since rebounded, managing a small gain in both large and small caps for the month. Several companies have reacted to the likely change in preferential treatment of dividend income by issuing special dividends or re-timing their planned dividends before year-end (Costco, Dillard's, Las Vegas Sands to name a few).

International Equity

Developed international equities outperformed US equities by nearly 200 basis points this month. European equities were particularly strong even as the Euro was flat versus the US dollar. The positive performance in equities is at odds with Eurozone unemployment of 11.7% and revised GDP forecasts pointing to a deeper recession in 2013 for many Eurozone constituents. Stranger still is that equities in France added 4.2% this month even as the country's credit rating was downgraded by Moody's.

Hedge Funds

It was a quiet month in the hedge space as most managers that we contact regularly have stuck to fairly conservative positioning, running lower net exposure and employing less leverage relative to their respective "norms". Beyond their macro concerns (which we largely share with those managers), this conservative perspective also reflects narrower opportunity sets. This is particularly evident in credit strategies as spreads have narrowed considerably this year. So, while some spread products remain decent values, long-short strategists are having a harder time capitalizing on relative value trades in structured credit.

Fixed Income

Intermediate Treasuries had a good run this month, adding nearly 1% as the yield on the 10-year note edged down from 1.7% to 1.6%. Munis attracted buyers too as the prospect of higher tax rates in 2013 drove demand higher while issuance has remained fairly steady. Corporate bonds rose modestly with lower quality issues leading the charge.

Real Assets

In aggregate, commodities were flat in November but base metal pricing continues to be very volatile as traders assess the level of Chinese demand for raw materials. The Brent/WTI crude oil spread widened further in November to around $22/bbl but the overall move higher in oil wasn't that big given the turmoil in Israel and Gaza. The negative momentum in the REIT market persisted this month even as interest rates fell and payouts remained robust.

(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