

## Capital Markets Flash Report

<b>US Equity Markets</b>	<b>Dec-12</b>	<b>YTD</b>
<b>Large Stocks:</b>		
S&P 500	0.91%	16.00%
Russell 3000	1.22%	16.41%
Russell 1000	1.04%	16.46%
Russell 1000 Growth	-0.03%	15.26%
Russell 1000 Value	2.07%	17.51%
<b>Small Stocks:</b>		
Russell 2500	2.61%	17.88%
Russell 2000	3.56%	16.35%
Russell 2000 Growth	2.88%	14.59%
Russell 2000 Value	4.21%	18.05%
<b>International Equity Markets**</b>		
MSCI EAFE	3.21%	17.90%
MSCI EAFE Growth	2.39%	17.28%
MSCI EAFE Value	4.06%	18.43%
MSCI Europe	2.83%	19.93%
MSCI Japan	5.31%	8.36%
MSCI Emerging Markets	4.90%	18.63%
<b>Hedge Fund Markets***</b>		
<b>HFRX Indexes:</b>		
Convertible Arbitrage	0.97%	7.10%
Distressed	0.50%	0.93%
Equity Hedge	0.04%	4.39%
Equity Market Neutral	-0.07%	-4.81%
Event Driven	0.82%	5.47%
Macro	0.55%	-1.09%
Relative Value Arbitrage	0.95%	3.28%
<b>US Fixed Income Markets</b>		
U.S. Treasury Bonds <sup>(1)</sup>	-0.73%	3.41%
Treasury Inflation-Protected Securities <sup>(2)</sup>	-0.60%	6.87%
Tax-Exempt Bonds <sup>(3)</sup>	-1.20%	5.46%
Corporate Bonds <sup>(4)</sup>	-0.03%	9.24%
High-Yield Bonds <sup>(5)</sup>	1.32%	13.83%
<b>Real Asset Markets</b>		
DJ UBS Commodity Index Total Return	-2.61%	-1.06%
FTSE NAREIT Equity Index	3.65%	19.70%

### Overview

Early on New Year's Day, the Senate passed a bill to avert automatic spending cuts and tax increases originally designed to save Congress from itself by reducing the country's deficits and gradually bring down debt (aka the fiscal cliff). The House of Representatives approved the bill yesterday. Unfortunately and unsurprisingly, the new bill does not address any spending and in fact increases planned expenditures while raising taxes on roughly 80% of working Americans, with the largest burden being passed onto families and small businesses earning \$450,000 or more. Just two short months until we revisit this exasperating process...

### US Equity

US equities spent most of December in positive territory and then "Plan B", a Republican proposal to avert the fiscal cliff, failed to come up for a Congressional vote. After this drastic turn in sentiment, US equities dropped in value for six of the last eight trading days of 2012, finishing the month up by 90 basis points. Small caps outperformed large caps by a margin of 260 basis points this month, led by consumer discretionary stocks.

### International Equity

With all eyes on the political circus in Washington DC, international equities rose substantially in December, adding to an impressive year-end run. EAFE added over 3% this month and were led by Japan's strong performance coupled with outsized gains in EAFE value stocks. Value stocks were led by large gains in the financial services sector.

Emerging markets were up nearly 5% as economic data out of China and new communist leadership has brightened investors' sentiment as of late. With the strong absolute and relative performance in December for international equities, both EAFE and EM indices beat out the S&P 500 in 2012.

### Hedge Funds

It was a relatively quiet month for hedge funds as more directional strategies were inclined to reduce net exposure going into year-end to protect against any spike in volatility stemming from the fiscal cliff negotiations. For the year, structured credit strategies have been the biggest, most consistent winners but long-short equity strategies have also found some traction as correlations between equities have generally fallen, creating a wider opportunity set for skilled hedge managers.

### Fixed Income

Even as US equities pulled back, Treasuries were unable to recover from early-month losses as the 10-year yield backed up to 1.76%. By comparison, TIPS saw less of a drop this month, finishing the year 340 basis points ahead of nominal Treasuries. Municipal bond funds witnessed big outflows this month as investors worried over tax changes in the new year and state-specific credit quality concerns reemerged. High yield bonds rose 1.3%, bringing that sector's 2012 gain to 13.8%. Investment grade credits added a healthy 9.2% for the year.

### Real Assets

The DJ-UBS Commodity Index fell this month despite gains in crude oil prices. Prices for base metals were generally weak, even as Chinese industrial demand showed signs of turning the corner. The weakest sector was agricultural commodities with corn and wheat futures falling sharply.

Yield-hungry buyers broke the recent downtrend in REITs this month, boosting prices by 3.7% and bringing the 2012 return to nearly 20%. Housing data in the US has shown consistent price gains in the 3<sup>rd</sup> and 4<sup>th</sup> quarters, boosting the outlook for homebuilders and regional banks alike.

(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>