GREYCOURT

For the Month Ending January 31, 2013

Capital Markets Flash Report

US Equity Markets	Jan-13	YTD
Large Stocks:		
S&P 500	5.18%	5.18%
Russell 3000	5.49%	5.49%
Russell 1000	5.42%	5.42%
Russell 1000 Growth	4.29%	4.29%
Russell 1000 Value	6.50%	6.50%
Small Stocks:		
Russell 2500	6.84%	6.84%
Russell 2000	6.26%	6.26%
Russell 2000 Growth	6.58%	6.58%
Russell 2000 Value	5.96%	5.96%
International Equity Markets**		
MSCI EAFE	5.29%	5.29%
MSCI EAFE Growth	4.67%	4.67%
MSCI EAFE Value	5.92%	5.92%
MSCI Europe	5.87%	5.87%
MSCI Japan	3.67%	3.67%
MSCI Emerging Markets	1.39%	1.39%
Hedge Fund Markets***		
HFRX Indexes:		
Convertible Arbitrage	0.73%	0.73%
Distressed	0.81%	0.81%
Equity Hedge	2.31%	2.31%
Equity Market Neutral	-0.47%	-0.47%
Event Driven	3.27%	3.27%
Macro	-0.07%	-0.07%
Relative Value Arbitrage	1.25%	1.25%
US Fixed Income Markets		
U.S. Treasury Bonds (1)	-1.08%	-1.08%
Treasury Inflation-Protected Securities (2)	-0.69%	-0.69%
Tax-Exempt Bonds (3)	0.37%	0.37%
Corporate Bonds (4)	-0.52%	-0.52%
High-Yield Bonds (5)	0.64%	0.64%
Real Asset Markets		
DJ UBS Commodity Index Total Return	2.40%	2.40%
FTSE NAREIT Equity Index	3.66%	3.66%

Overview

The Federal government avoided addressing the nation's fiscal issues by extending the debt ceiling (once again) and delaying sequestration for several months. Markets seemed to breathe a sigh of relief upon this realization and merely shrugged as 4th quarter GDP shrank by 0.1%, badly missing the low end of the forecast growth range (1%).

Rationally, it appears that businesses were conservative with spending last quarter, lowering inventories as the fiscal cliff approached but consumers didn't let the prospect of higher taxes/slower growth spoil the holiday season. Unfortunately, the popularly and oft-cited "surge" in 4th quarter disposable incomes was largely a result of one-time factors like special dividends and accelerated bonuses aimed at avoiding higher tax bills in 2013. All-told, investor sentiment is remarkably rosy given the political backdrop, higher taxes on nearly all working Americans, and GDP headed in the wrong direction.

US Equity

The S&P 500 started out 2013 with a 2% rally on a fiscal cliff aversion deal and then crept higher for the rest of the month, stringing together many days of small gains. We are just past the halfway point in earnings season and companies have been beating both top and bottom line estimates over 60% of the time. Investor sentiment seemed to waver a bit on worse-than-expected GDP growth. However, an accommodative Fed and solid earnings have provided traction for the S&P 500 near 5-year highs. Nearly all sectors rose by mid-single-digits with the exception of technology stocks which took a hit on Apple's disappointing earnings report. Small caps experienced gains across all sectors.

International Equity

International equities were mixed this month but nearly all positive. Europe rose 5.9%. Japan cooled off a bit but still rose 3.7% as newly-elected PM Abe touted extreme willingness to undermine the Yen (down nearly 6% versus the US dollar in January) in an effort to boost export strength. The emerging markets return of 1.4% lagged developed markets, even as China gained 4.1% and EM Europe gained 3.7%.

Hedge Funds

2013 started out very much like 2012: favorable returns to equity hedge strategies with higher net equity exposures being rewarded and macro strategies generally languishing. In terms of the opportunity set for 2013 and beyond, we favor long-short equity strategies over structured credit. Over the short-term, it seems that current conditions will favor macro strategies that are long volatility and other tail-risk hedges like credit default swaps. Insurance generally seems cheap as equity markets are trading near multi-year highs, volatility is low, and yield spreads for peripheral European debt are sitting at 50% or less of their respective peaks in 2012.

Fixed Income

It was a tough month for Treasuries and TIPS as the yield curve steepened. 10-year Treasury bonds yielded less than 1.8% at the close of 2012 and now yield north of 2% (an 11% increase). Even as equities rose to multi-year highs, investors upped their holdings of both taxable and tax-exempt bonds. Muni spreads compressed as after-tax yields on other investment grade securities fell for top earners. High yield bonds outperformed investment grade corporates by 110 basis points this month as persistently low default rates and the lure of better yields continue to draw investors out of higher credit-quality issues.

Real Assets

Commodities added 2.4% for the month led by big gains for oil and industrial metals. Gold was down modestly despite continued easing measures by central banks around the world. Natural gas also lost some ground as a mid-month price spike in response to abnormally low temperatures across the US turned out to be short-lived. REITs rose along with global equity markets, adding 3.7%.

(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

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