GREYCOURT

For the Month Ending February 28, 2013

Capital Markets Flash Report

US Equity Markets	Feb-13	YTD
Large Stocks:		
S&P 500	1.36%	6.61%
Russell 3000	1.33%	6.88%
Russell 1000	1.34%	6.84%
Russell 1000 Growth	1.24%	5.58%
Russell 1000 Value	1.44%	8.03%
Small Stocks:		
Russell 2500	1.15%	8.06%
Russell 2000	1.10%	7.43%
Russell 2000 Growth	1.06%	7.71%
Russell 2000 Value	1.14%	7.17%
International Equity Markets**		
MSCI EAFE	-0.92%	4.32%
MSCI EAFE Growth	0.48%	5.17%
MSCI EAFE Value	-2.33%	3.46%
MSCI Europe	-2.73%	2.98%
MSCI Japan	2.67%	6.44%
MSCI Emerging Markets	-1.24%	0.14%
Hedge Fund Markets***		
HFRX Indexes:		
Convertible Arbitrage	1.23%	2.20%
Distressed	-0.12%	0.69%
Equity Hedge	1.02%	3.69%
Equity Market Neutral	0.22%	0.60%
Event Driven	0.44%	3.83%
Macro	0.00%	0.10%
Relative Value Arbitrage	0.03%	1.53%
US Fixed Income Markets		
U.S. Treasury Bonds (1)	1.02%	-0.06%
Treasury Inflation-Protected Securities (2)	0.17%	-0.52%
Tax-Exempt Bonds (3)	0.35%	0.74%
Corporate Bonds (4)	0.73%	0.22%
High-Yield Bonds (5)	0.27%	0.94%
Real Asset Markets		
DJ UBS Commodity Index Total Return	-4.09%	-1.79%
FTSE NAREIT Equity Index	1.24%	4.94%

Overview

Head for the hills! Sequestration is upon us! In a nation saddled with $17 trillion in debt, a rationale observer might question all of the political clamoring over $80 billion in spending cuts. Alas, we seem to have reverted back to a fiscal cliff-esque stalemate with one political party willing to send us over a "cliff" and the other offering a "solution" of higher taxes – both unappealing options and both packaged with even less-appealing politics.

Capital markets fell precipitously mid-month as investors feared that Silvio Berlusconi would reverse austerity measures in Italy after an inconclusive national election. Sentiment improved though as a coalition government seems to be the most likely path forward with bond holders like the ECB still in control. Meanwhile, back in the US, real GDP growth was revised slightly higher to 0.1% versus a prior estimate of -0.1% for the 4th quarter.

US Equity

The S&P 500 rallied again in February but volatility spiked last week as Europe's ills came back into focus during the Italian election. Some clarity in Europe and dovish comments from Fed Chairman Bernanke ultimately soothed market fears though, buoying stocks in the final trading days of February. The rally was also backed by solid corporate earnings data. With most of earnings season behind us, reported earnings have exceeded estimates 72% of the time while the 66% "beat rate" for revenues was even more impressive in comparison to recent quarterly results.

International Equity

International equities retreated this month, led by a 2.7% drop in European stocks. Most of the loss was incurred as policy fears surfaced around the Italian election and peripheral sovereign bond yields jumped. The Euro also dropped 4% versus the US dollar. European leading economic indicators are still in the red (slightly) and Spain is now approaching two full years marked by economic contraction. One of the few bright spots in international equities this month was Japan, which rose 2.7% even as downward momentum in the Yen eased a bit. Emerging markets continue to languish in 2013 on lower economic growth prospects, particularly for the larger BRIC economies.

Hedge Funds

Equity hedge and event-driven strategies have generally experienced solid gains this year on the backs of a global equity rally and an acceleration of M&A activity. Results for global macro managers have been mixed with the overall group posting modest losses. Skilled macro managers have capitalized on major currency moves recently (Yen and British Pound).

Fixed Income

Treasuries bounced back in February after seeing large outflows from retail investors to start the year. The 10-year Treasury is now yielding 1.9% versus 2% at the start of the month. TIPS, munis, and corporate bonds were all up modestly this month.

Real Assets

Commodities fell out of favor in February, dropping 4%. Weakness was broad-based with industrial metals dropping by high single digits and WTI crude falling 6%. February offered no relief to gold investors with the spot price falling another 5% to under $1,600/oz. Still, many analysts have held true to their $2,000+/oz. forecasts in light of unprecedented global monetary expansion. Bucking the downward trend in commodities was natural gas, which traded 3% higher this month. US REITs rose along with domestic equities and are already up 5% on the year (a return well in excess of their annualized yield).

(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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