GREYCOURT

For the Month Ending March 31, 2013

Capital Markets Flash Report

US Equity Markets	Mar-13	YTD
Large Stocks:		
S&P 500	3.75%	10.61%
Russell 3000	3.92%	11.07%
Russell 1000	3.86%	10.96%
Russell 1000 Growth	3.75%	9.54%
Russell 1000 Value	3.96%	12.31%
Small Stocks:		
Russell 2500	4.43%	12.85%
Russell 2000	4.62%	12.39%
Russell 2000 Growth	5.10%	13.21%
Russell 2000 Value	4.16%	11.63%
International Equity Markets**		
MSCI EAFE	0.88%	5.23%
MSCI EAFE Growth	1.56%	6.81%
MSCI EAFE Value	0.17%	3.63%
MSCI Europe	-0.14%	2.83%
MSCI Japan	4.95%	11.70%
MSCI Emerging Markets	-1.70%	-1.57%
Hedge Fund Markets***		
HFRX Indexes:		
Convertible Arbitrage	1.93%	4.40%
Distressed	0.39%	1.32%
Equity Hedge	1.16%	5.05%
Equity Market Neutral	-0.12%	0.45%
Event Driven	1.26%	5.15%
Macro	0.05%	0.06%
Relative Value Arbitrage	0.19%	1.80%
US Fixed Income Markets		
U.S. Treasury Bonds (1)	0.30%	0.25%
Treasury Inflation-Protected Securities (2)	0.27%	-0.25%
Tax-Exempt Bonds (3)	-0.41%	0.34%
Corporate Bonds (4)	0.09%	0.32%
High-Yield Bonds (5)	0.76%	1.72%
Real Asset Markets		
DJ UBS Commodity Index Total Return	0.67%	-1.13%
FTSE NAREIT Equity Index	3.01%	8.10%

Overview

US Real GDP growth in the 4th quarter was revised slightly higher (again) to 0.4% versus a prior estimate of 0.1%. Early indications for growth in the 1st quarter are favorable but the latest surveys of consumer confidence and big-ticket spending plans cast some doubt over the sizeable year-to-date gains in equities. The real impact of higher taxes for nearly all working Americans and lower growth in government expenditures (sequestration) may become more evident in the 2nd quarter.

The future direction of the Italian government is still in limbo weeks after the national election and Cypriot banks have reopened after locking out depositors. Eurozone sovereign spreads to German Bund yields have expanded and the Euro has dropped in response to these ongoing issues.

US Equity

The S&P 500 tacked on another 3.8% in March, bringing its year-to-date return to an impressive 10.6%. This return is in line with many experts' forecasts for all of 2013. The large cap index broke through its all-time high last Thursday. Equities have been led by healthcare and consumer staple stocks (traditionally defensive sectors) with 16% and 15% respective gains this year, while large cap technology performance has been hampered by Apple. Small caps gains have exceeded those of large caps so far this year and performance in March was no different as the Russell 2000 gained 4.6%.

International Equity

Respective declines in the Yen and Euro have been the most significant drivers of international equity performance so far in 2013. The Yen has depreciated nearly 9% versus the greenback. This depreciation has boosted the outlook for Japan's export-driven economy and Japan's stock market is now up 11.7% for the year after a 5% gain in March. Conversely, weakness in the Euro has coincided with relatively weak equity performance across Europe. So far this year, the Euro has declined 3% versus the US dollar.

Recent emerging market performance has been puzzling. Year-to-date, it is the worst performing class of equities (down 1.7%) while developed markets have generally gained between 5% and 13%. Even Europe, with all of its troubles and a flagging Euro, has added 3% this year. It seems that developed/emerging market convergence of some sort is in order. Either EM export markets (US and Europe) are recovering and recent developed market equity gains are justified OR the outlook for emerging market growth is as weak as EM equity valuation suggests.

Hedge Funds

A generally cautious outlook from long-short equity managers has resulted in mid-single digit returns so far this year, roughly half of domestic equity returns but in line with international markets. On average, hedge strategies with less directional exposure to equities and speculative credit have been flat year-to-date. The opportunity set in distressed equity/credit has been constrained as default rates remain muted and equity prices/credit conditions continue to improve. Event-driven strategies have benefitted from a relatively strong M&A environment and some of the same factors that have held back distressed strategies.

Fixed Income

The Treasury yield curve was largely unchanged this month. Mid-month the 10-year note yield peaked at 2.1%. High yield bonds added another 80 basis points bringing the year-to-date return to 1.7%. The 12-month default rate for high yield bonds has been trending down from already low levels. By year-end, defaults are expected to rise modestly but to levels below the historical mean. Higher-quality bonds have basically been flat on the year.

Real Assets

Commodities rebounded this month after broad-based losses in February. The advance was led by energy, specifically WTI crude oil and natural gas. Gold hovered around $1,600/oz. for most of the month, peaking as concerns over the Eurozone boosted speculative interest. REITs added 3% this month but have not kept pace with other US equities for the year. Yields on REITs are about 1 percentage point higher than those of large cap equities (50% higher) but the largest REITs are looking very expensive relative to their respective book values.

(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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