GREYCOURT

For the Month Ending May 31, 2013

Capital Markets Flash Report

US Equity Markets	May-13	YTD
Large Stocks:		
S&P 500	2.34%	15.37%
Russell 3000	2.36%	15.56%
Russell 1000	2.23%	15.49%
Russell 1000 Growth	1.86%	13.95%
Russell 1000 Value	2.57%	16.94%
Small Stocks:		
Russell 2500	3.09%	16.69%
Russell 2000	4.00%	16.45%
Russell 2000 Growth	5.08%	18.20%
Russell 2000 Value	2.99%	14.88%
International Equity Markets**		
MSCI EAFE	-2.31%	8.29%
MSCI EAFE Growth	-2.03%	9.19%
MSCI EAFE Value	-2.60%	7.37%
MSCI Europe	0.36%	7.87%
MSCI Japan	-5.66%	14.63%
MSCI Emerging Markets	-2.52%	-3.29%
Hedge Fund Markets***		
HFRX Indexes:		
Convertible Arbitrage	3.14%	9.29%
Distressed	1.36%	3.65%
Equity Hedge	1.18%	6.97%
Equity Market Neutral	0.08%	1.10%
Event Driven	2.19%	8.65%
Macro	-0.84%	-0.31%
Relative Value Arbitrage	0.96%	3.15%
US Fixed Income Markets		
U.S. Treasury Bonds (1)	-2.48%	-1.14%
Treasury Inflation-Protected Securities (2)	-4.30%	-3.79%
Tax-Exempt Bonds (3)	-1.28%	0.02%
Corporate Bonds (4)	-1.88%	-0.31%
High-Yield Bonds (5)	-0.83%	2.57%
Real Asset Markets		
DJ UBS Commodity Index Total Return	-2.24%	-6.04%
FTSE NAREIT Equity Index	-5.90%	8.16%

Overview

"Mixed" remains an apt characterization of US economic data. Job ranks swelled last month, with comparable gains expected in May's survey. The 7.5% US unemployment rate, however, is unacceptably high while Eurozone employment is trending the wrong way. 1st quarter US GDP growth came in slightly lower than originally estimated (2.4% versus the prior estimate of 2.5%). Consumer spending fell unexpectedly in April for the first time in almost a year while consumer confidence hit 6-year highs, driven by rising stock market valuations and home prices that reinforced a sense of prosperity (what the Fed refers to as the "wealth effect").

May's biggest financial headline was Ben Bernanke's message to Congress suggesting we might soon see the beginning of the end of the quantitative easing era … or not. This equivocation regarding the future of QE injected a large dose of uncertainty into the global capital markets, prompting most stocks and bonds to close out the month sharply down.

US Equity

The S&P 500 gained 2.3% in May, bringing the year-to-date return for large caps to over 15%. The current rally is in its seventh month without experiencing a correction. Financial, energy, and tech stocks were some of the strongest performers this month while defensive sectors, like utilities and consumer staples, generally lagged. Small caps posted a 4% gain led by growth stocks. The Russell 2000 and S&P 500 are about even for the year in terms of performance, with the small cap index holding a slight edge.

International Equity

International equities have been on fire this year, led by eye-popping returns from Japan's equity market. After Japan's TOPIX reached a multi-year high, the index sharply reversed course, dropping more than 10% in the days following the Fed's comments. For the month, the Yen slid another 3% versus the US dollar and is now down 16% year-to-date. Despite the recent selloff in Japan's equity market, the enormous monetary stimulus being injected into Japan's economy has left many Yen short-sellers/equity bulls un-phased.

Emerging markets failed to lure equity investors yet again in May as evidence of a Chinese slowdown and subdued exports to developed markets have hampered earnings expectations. Equities in Brazil, Russia, China, and Korea have all posted mid-single-digit losses year-to-date. Clearly, the signals across global equity markets are also "mixed."

Hedge Funds

Hedged equity strategies with higher net exposures performed well; having said that, hedge managers have been reducing net-long equity and credit exposures in the face of rising market valuations. We suspect this defensive stance will be rewarded in the months ahead as market participants assess the timing and scope of central bank interventions. Japan equity specialists, and global macro managers, riding the massive wave of Japan's equity market experienced setbacks to close out the month but remain among the best performers for the year.

Fixed Income

Intermediate duration bonds took a substantial hit in May as Treasury rates rose in response to the Fed's discussion of eventual tapering of its large-scale asset purchases. The decline in TIPS was particularly steep as lower inflation expectations, coupled with higher nominal rates, proved a jarring combination. Munis gave back all of their modest year-to-date gains and high yield bonds also sold off.

Real Assets

Commodities continued their downward trend in May as big declines in natural gas, wheat, and gold led the index lower. Brent and WTI oil were steady as investors weighed the risks of Middle-East supply shocks and concerns over slowing demand from EM countries, particularly China. REITs have been very volatile this year, dropping 6% this month. Going forward, interest rate concerns will likely be amplified in the price movements of higher-yielding securities such as REITs. Yield-seekers beware …

(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