GREYCOURT

For the Month Ending June 30, 2013

Capital Markets Flash Report

US Equity Markets	Jun-13	YTD
Large Stocks:		
S&P 500	-1.34%	13.82%
Russell 3000	-1.30%	14.07%
Russell 1000	-1.36%	13.92%
Russell 1000 Growth	-1.88%	11.80%
Russell 1000 Value	-0.88%	15.93%
Small Stocks:		
Russell 2500	-1.09%	15.42%
Russell 2000	-0.51%	15.86%
Russell 2000 Growth	-0.62%	17.44%
Russell 2000 Value	-0.41%	14.39%
International Equity Markets**		
MSCI EAFE	-3.53%	4.47%
MSCI EAFE Growth	-3.14%	5.76%
MSCI EAFE Value	-3.92%	3.17%
MSCI Europe	-4.80%	2.69%
MSCI Japan	1.76%	16.64%
MSCI Emerging Markets	-6.32%	-9.40%
Hedge Fund Markets***		
HFRX Indexes:		
Convertible Arbitrage	-1.19%	7.62%
Distressed	-1.76%	2.05%
Equity Hedge	-2.00%	4.48%
Equity Market Neutral	-0.69%	0.53%
Event Driven	-1.35%	7.14%
Macro	-0.33%	-0.74%
Relative Value Arbitrage	-1.53%	1.34%
US Fixed Income Markets		
U.S. Treasury Bonds (1)	-2.29%	-3.41%
Treasury Inflation-Protected Securities (2)	-3.94%	-7.58%
Tax-Exempt Bonds (3)	-2.59%	-2.56%
Corporate Bonds (4)	-2.65%	-2.94%
High-Yield Bonds (5)	-3.01%	-0.50%
Real Asset Markets		
DJ UBS Commodity Index Total Return	-4.71%	-10.47%
FTSE NAREIT Equity Index	-2.19%	5.80%

Overview
US GDP growth slowed to a disappointing 1.8% in the first quarter as higher taxes on American workers impacted spending (go figure). Nonetheless, corporate profit margins and balance sheets remain healthy, consumer sentiment is high, existing home sales in May reached their highest level in six years, and domestic business activity is expanding. Central bankers around the globe are still accommodating as Chinese central bankers try to assure market participants that reserves are more than adequate to stave off any liquidity crisis. So far, credit conditions have improved.

US Equity
The S&P 500 experienced its first monthly setback since last October, falling 1.3% in June. Still, the 1st half return of 13.8% for large cap equities was the largest in over two decades. Small caps finished about even with large caps for the month while technology stocks led both the S&P 500 and Russell 2000 lower. The question of the hour is whether equity prices will consolidate near current levels before another upswing or continue to succumb to selling pressure. The former scenario appears most likely as fundamentals have not deteriorated significantly nor has the economy shown signs of reaching “breakout velocity” to force an early Fed exit.

International Equity
The Yen fell 1.3% in June, resuming its year-to-date decline versus the US dollar. Japan’s equity market stabilized a bit this month for a gain of 1.7% as the short-covering rally in the Yen seems to have subsided. Local equity market returns in Europe were poor, underperforming the rest of the developed world by 350-780 basis points.

In emerging markets, China was buffeted by increasingly pessimistic investors. The capital flight from EM equity and bond markets, however, was indiscriminate, leaving most markets reeling. EM Europe, Asia, and Latin America recorded high single-digit monthly drops (currency losses were only responsible for a small fraction of the total drawdown). Equities in China fell into bear market territory as the year-to-date performance gap between developed and emerging market equities widened to astonishing levels ranging from 14–26 percentage points.

Hedge Funds
The skillful application of absolute return and hedged strategies has been well rewarded in recent months amid surges in volatility for equities and bonds. Many of the hedge managers we follow closely have maintained relatively defensive postures this year in response to the large runs in equity and credit markets. Some have even amassed large cash balances in response to a dearth of opportunities and discouraging performance from short positions. Macro distress hedges contributed significantly to multi-strategy managers in June while structured credit investments and exposure to commodity markets, particularly gold bets, hurt performance.

Fixed Income
High quality bonds were pummeled again in June with acute weakness in the TIPS market. A combination of rising interest rates and lower inflation expectations led to a 4% loss for TIPS. A modest uptick in credit spreads led to losses in investment grade corporate bonds while speculative grade issues fell by 3%. For the year, most bonds are in the red driven by abysmal performance over the last six weeks as investors grapple with uncertainty regarding the timing and magnitude of tapering by the Fed.

Real Assets
Commodities experienced another broad-based sell-off in June (down 5%) which brought the benchmark index year-to-date loss to 10.5%. The notable exception to this trend has been WTI crude oil as the discount to Brent has narrowed considerably. The inflation premium in precious metals has collapsed this year with no recent evidence of a break in the trend. REITs continue to fall behind other equity markets year-to-date as yield-seekers have headed for the exits. As with higher-quality bonds, this reversal has presented some opportunities as individual security prices reset.

(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

Greycourt & Co., Inc., 607 College Avenue, Pittsburgh, Pennsylvania • 720 SW Washington Street, Portland, Oregon
808 Travis Street, Suite 914, Houston, Texas • 222 S. 9th Street, Suite 1600, Minneapolis, Minnesota