GREYCOURT

For the Month Ending July 31, 2013

Capital Markets Flash Report

US Equity Markets	Jul-13	YTD
Large Stocks:		
S&P 500	5.09%	19.61%
Russell 3000	5.48%	20.32%
Russell 1000	5.35%	20.02%
Russell 1000 Growth	5.30%	17.73%
Russell 1000 Value	5.40%	22.19%
Small Stocks:		
Russell 2500	6.53%	22.96%
Russell 2000	7.00%	23.97%
Russell 2000 Growth	7.56%	26.32%
Russell 2000 Value	6.43%	21.74%
International Equity Markets**		
MSCI EAFE	5.28%	9.99%
MSCI EAFE Growth	4.71%	10.74%
MSCI EAFE Value	5.86%	9.21%
MSCI Europe	7.38%	10.26%
MSCI Japan	0.60%	17.34%
MSCI Emerging Markets	1.10%	-8.40%
Hedge Fund Markets***		
HFRX Indexes:		
Convertible Arbitrage	1.34%	9.87%
Distressed	1.21%	3.77%
Equity Hedge	2.29%	6.98%
Equity Market Neutral	0.38%	0.99%
Event Driven	1.45%	8.93%
Macro	-0.31%	-1.38%
Relative Value Arbitrage	0.13%	1.54%
US Fixed Income Markets		
U.S. Treasury Bonds (1)	-0.12%	-3.51%
Treasury Inflation-Protected Securities (2)	0.94%	-6.72%
Tax-Exempt Bonds (3)	-0.39%	-2.92%
Corporate Bonds (4)	0.78%	-2.15%
High-Yield Bonds (5)	1.83%	1.37%
Real Asset Markets		
DJ UBS Commodity Index Total Return	1.36%	-9.25%
FTSE NAREIT Equity Index	0.83%	6.67%

Overview

US GDP grew by 1.7% in the second quarter, improving against last quarter's 1.1% increase. Unfortunately, much of the growth resulted from a build-up in inventories driven by slowing consumer spending. Core inflation at 1.6% remains mild while the US jobless rate will likely improve to 7.5% on a hiring pick up in July. Investor sentiment and consumer confidence are decidedly upbeat given positive trends in equities and home prices. Recent sharp increases in mortgage rates, however, are already dampening housing demand. In our view, these signs suggest continuing quantitative easing at odds with current tapering fears. Apparently, the Fed concurs, confirming yesterday that it would still be buying $85 billion of bonds per month.

US Equity

US equities resumed their year-to-date ascent in July as Ben Bernanke reassured markets that the economy is not great (?) and that massive quantitative easing is still required. Interestingly, S&P 500 gains were broad-based across all sectors; for the year, though, defensive sectors like healthcare and consumer staples are clearly leading the way as materials and energy continue to lag (albeit with double digit gains of their own). Small caps also posted consistent gains across sectors, lifting the Russell 2000 Index by 7% in July with a year-to-date increase of 24%!

International Equity

International equities rose 5.3% this month, led by a 7.4% gain in Europe. Japan added 0.6%, failing to keep pace with the rest of the developed markets as the Yen gained 1.3% against the US dollar. Emerging markets added 1.1% this month, stemming prior months' losses. Nonetheless, performance was still weak relative to developed markets. EM Europe was especially strong while EM Latin America lagged. Significant exporters – China and Korea - posted equity market gains of 4.1% and 3.7%, respectively.

Hedge Funds

Several hedge managers we follow closely continue to position defensively in light of rising global equity valuations and subdued economic growth. Skilled global macro managers have added significant value this year by capitalizing tactically on global central banks' collective interventions in the capital markets. At present, tail risk hedging strategies appear less focused on peripheral Europe and more on the emerging markets. Out of all the sub-strategies pursued by hedge managers, equity long-short funds, on average, have posted the most consistent and sizeable gains so far in 2013.

Fixed Income

Detroit's long-anticipated bankruptcy implosion has not disrupted municipal bond markets to the extent some might expect given the magnitude of the problem ($18B of total liabilities, $600M of GO bonds). The courts will now decide whether Detroit can treat GO bonds as unsecured debt. The municipal yield curve has steepened modestly since the Chapter 9 filing and bond funds generally have experienced sizeable outflows this month. The increase in municipal yields and fund outflows are largely unrelated to Detroit, however, and primarily a continuation of the trend set in motion two months ago by the Fed's taper talk. Selling pressures in TIPS and high yield bonds abated this month. Despite a 1% rebound in July, longer-duration TIPS are still down nearly 7% year-to-date.

Real Assets

Commodity price indices were basically flat in July as strength in oil and gold prices was offset by weakness in natural gas and agricultural prices. China's strong equity market performance was not accompanied by higher industrial metal prices or a stronger Aussie dollar — again, expectations regarding commodities remain muted. REITs experienced a nice bounce in July yet still lag broader equity markets substantially year-to-date. The sharp drawdowns in May and June seem to have left many would-be yield-seekers in search of alternatives to leveraged real estate income.

(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