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Capital Markets Flash Report

For the Month Ending September 30, 2013

US Equity	Sep-13	YTD
Large Stocks:		
S&P 500	3.1%	19.8%
Russell 3000	3.7%	21.3%
Russell 1000	3.5%	20.8%
Russell 1000 Growth	4.5%	20.9%
Russell 1000 Value	2.5%	20.5%
Small Stocks:		
Russell 2000	6.4%	27.7%
Russell 2000 Growth	7.0%	32.5%
Russell 2000 Value	5.8%	23.1%
International Equity**		
MSCI All-Country World ex-US	7.0%	10.5%
MSCI EAFE	7.4%	16.6%
MSCI EAFE Growth	7.0%	16.9%
MSCI EAFE Value	7.9%	16.3%
MSCI Europe	7.2%	16.7%
MSCI Japan	8.4%	24.5%
MSCI Emerging Markets	6.5%	-4.1%
Hedge Funds***		
HFRX Indexes:		
Convertible Arbitrage	0.3%	1.9%
Distressed	0.8%	10.0%
Equity Hedge	0.5%	4.6%
Equity Market Neutral	1.5%	6.9%
Event Driven	0.0%	-0.5%
Macro	2.1%	10.9%
Relative Value Arbitrage	2.3%	6.5%
Fixed Income		
U.S. Intermediate Treasuries (1)	0.7%	-0.9%
U.S. Long Treasuries (2)	0.4%	-9.9%
U.S. TIPS (3)	1.5%	-6.7%
Tax-Exempt Bonds (4)	2.2%	-2.9%
Corporate Bonds (5)	0.7%	-2.8%
High-Yield Bonds (6)	1.0%	3.7%
Real Assets		
Commodities (7)	-2.6%	-8.6%
Real Estate Investment Trusts (8)	3.4%	3.0%

Overview

The US government is closed officially for the first time since 1995, marking the 18th closure in 37 years. In the face of this looming threat, bearish bets on global equities failed to gain momentum yesterday and foreign stock markets actually closed up overnight. Moreover, US stock markets seem poised to rise at the open this morning. Apparently, the deadline that matters is October 17th when the US is expected to reach its debt ceiling. If the summer of 2011 supplies any lessons, investors will sell stocks and seek the "safety" of Treasuries (insert Rod Serling narrative here) as we approach the debt ceiling deadline. For macroeconomic context, note that the latest 2nd quarter US GDP growth estimate was 2.5%, in line with the previous estimate and slightly below the consensus expectation of 2.6%.

US Equity

US large cap equities gained 3.1% this month, bringing year-to-date total returns to 19.8%. Small caps rose 6.4% in September and for the second consecutive month, growth stocks outperformed value stocks across market capitalizations. In light of geopolitical threats ranging from a Syrian civil war to the US government shutdown, and the absence of recent earnings data, US equities have been surprisingly resilient in recent weeks. More QE certainly helped as well.

International Equity

International equities jumped 7% this month, led by an 8.4% gain in the MSCI Japan Index. European stocks did not lag far behind, rising 7.2% as the Euro fell 2%. Emerging markets stocks were also strong, gaining 6.5% this month. The EM rally was led by a rebound in the BRIC equity markets, particularly Brazil and India (up 12% and 9% respectively). With September's gain, EM equities erased most of their year-to-date losses. Industrial metals demand, China's PMI data, and EM fund flows, particularly for EM bonds, indicate a positive shift in investor sentiment. Ultimately, an accommodative Fed seems to be the linchpin in any continuing rally.

Hedge Funds

The average long-short equity strategist has benefitted from the rising tide of global equities this year while best-in-class managers have also capitalized on the differential performance of individual securities (intra-stock correlations have plummeted) and stock sectors (the year-to-date performance gap between the top and bottom performing sectors of the S&P 500 is 20 percentage points). Global macro strategies, on average, have performed very well this year after several years of underperformance versus other hedge strategies. Much of this strong performance is related to the unprecedented monetary easing measures implemented by global central banks.

Fixed Income

Massive bond fund outflows have dissipated in recent weeks while new issuance only slightly outpaces reinvestment demand. These data points suggest a more positive environment for bonds over the near-term. In September, bonds experienced broad-based gains (albeit still lagging equity market gains). Lower quality corporate bonds (high yield) performed in line with investment grade corporates. TIPS gained 1.5%, trimming their year-to-date loss to 7% while munis added 2.2%. We suspect that recent price gains and ongoing uncertainty over government funding and Fed policy will support high-quality bond prices.

Real Assets

Despite the rally in global equities and a huge rebound in the Baltic Dry Index (global dry-bulk shipping rates), commodities fell by 2.6% this month. Losses were broad-based with some pockets of strength in industrial metals (copper up 3%, nickel up 1%). REITs rebounded nicely on the news that the Fed would maintain its MBS purchases for at least a little while longer. Year-to-date, REITs still trail developed market equities by over 10 percentage points.

*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

(1) Barclays US Total Treasury Intermediate Total Return (2) Barclays US Total Treasury Long Total Return (3) Barclays US Treasury Inflation-Protected Securities Total Retun (4) Barclays Municipal Bond Total Return (5) Barclays US Corporate Investment-Grade Total Return (6) Barclays High-Yield US Corporate Total Return (7) Dow Jones UBS Commodity Total Return (8) FTSE NAREIT Equity REIT Index Total Return

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