GREYCOURT

Capital Markets Flash Report

For the Month Ending November 30, 2013

US Equity	Nov-13	YTD
Large Stocks:		
S&P 500	3.0%	29.1%
Russell 3000	2.9%	30.1%
Russell 1000	2.8%	29.6%
Russell 1000 Growth	2.8%	29.8%
Russell 1000 Value	2.8%	29.3%
Small Stocks:		
Russell 2000	4.0%	36.1%
Russell 2000 Growth	4.1%	40.4%
Russell 2000 Value	3.9%	32.0%
International Equity**		
MSCI All-Country World ex-US	0.2%	14.7%
MSCI EAFE	0.8%	21.5%
MSCI EAFE Growth	0.9%	21.0%
MSCI EAFE Value	0.7%	21.9%
MSCI Europe	1.2%	23.2%
MSCI Japan	1.5%	26.3%
MSCI Emerging Markets	-1.5%	-0.8%
Hedge Funds***		
HFRX Indexes:		
Convertible Arbitrage	0.5%	3.3%
Distressed	-1.3%	8.6%
Equity Hedge	-0.4%	5.0%
Equity Market Neutral	0.8%	9.6%
Event Driven	0.7%	1.6%
Macro	0.3%	13.2%
Relative Value Arbitrage	-0.1%	8.1%
Fixed Income		
U.S. Intermediate Treasuries (1)	-0.1%	-0.6%
U.S. Long Treasuries (2)	-2.5%	-10.9%
U.S. TIPS (3)	-1.1%	-7.2%
Tax-Exempt Bonds (4)	-0.2%	-2.3%
Corporate Bonds (5)	-0.2%	-1.6%
High-Yield Bonds (6)	0.5%	6.9%
Real Assets		
Commodities (7)	-0.8%	-10.6%
Real Estate Investment Trusts (8)	-4.9%	2.3%

Overview

Policy makers remain committed to stimulus. In early November, the European Central Bank cut its main interest rate to a record low 0.25%. Subsequently, the U.S. Senate Banking Committee approved Janet Yellen's nomination as Federal Reserve Chair, all but assuring her confirmation. Black Friday (which sadly launched on *Thursday* this year) unleashed a predictable buying frenzy while online sales are associated with reduced brick-and-mortar crowds.

US Equity

The beat went on for the S&P 500, up 3% in November to finish above 1800. For the year, large cap stocks have posted an impressive 29.1% return; unfortunately, most of the return has derived from improving sentiment and scant opportunities in other asset classes such as high-quality bonds (thank you, Mr. Bernanke). Support for this claim comes from consistent quarterly growth rates in S&P 500 earnings-per-share (3.4% in the third quarter and 2-3% in the prior two quarters) and roughly a 4% yield from dividends and share repurchases. Small caps roared again, up 4% in November and 36.1% for the year. Rising equity valuations, however, particularly in small caps, suggest that investors might be overpaying for future growth.

International Equity

The MSCI EAFE Index rose 0.8% this month as European and Japanese equities gained 1.2% and 1.5%, respectively. Dragging the EAFE return down was the relatively poor performance of Australian equities (-4.4%), hit by a falling Aussie dollar and weakness in industrial and precious metals. International equities for the year trail their U.S. counterparts by 800 basis points; approximately half of this underperformance is explained by massive slides in the Yen and Aussie dollar against the U.S. dollar. Emerging markets equities fell flat this month on a local basis, and lost 1.5% in US dollar terms, as the US dollar strengthened against EM currencies. The loss snapped three consecutive months of EM equities outperformance against developed markets.

Hedge Funds

Most hedge strategies generated modest gains in November, continuing to take a backseat to equity gains for the year. Importantly, most hedge strategy gains have significantly outpaced bond returns in 2013 providing attractive return and diversification benefits to investor portfolios. Sentiment-driven increases in equity valuations, and very low volatility, are likely setting the table for long/short equity outperformance in the months ahead. One of the consistent, and recently well-rewarded, themes in global macro hedge strategies this year has been the anticipation of rising interest rates in the U.S., expressed most effectively through curve-steepening trades.

Fixed Income

The 10-year U.S. Treasury note started November at 2.65% and finished at 2.75%, notwithstanding the likely confirmation of an ultra-dovish Janet Yellen as Fed Chair. In recent months, short rates have held steady (or dropped) while rates in the 7-year to 20-year maturity range have risen substantially. Given this steepening trend, and material outflows from bond funds, investors are clearly protecting themselves against prospective Fed-tapering volatility or, at the very least, concluding that the risk/reward tradeoff in bonds is unappealing. If these trends persist, it could be a "sell the rumor, buy the news" scenario for bonds as substantial interest rate risk has already been realized in 2013 while prospects for economic growth and inflation remain subdued.

Real Assets

In aggregate, commodity prices fell 80 basis points this month, belying the large price swings in individual commodities. WTI crude oil fell 4% in response to ever-increasing U.S. stockpiles while natural gas leapt 8% in anticipation of a colder-than-average winter across the U.S. Industrial metal prices fell anywhere from 3-8% while prices for gold and other precious metals were weak as well. REITs fell 5% this month, giving up their gain from October and then some; investors appear simply unwilling to bid up interest rate-sensitive assets like REITs and longer-dated bonds despite an accommodative Fed.

*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