GREYCOURT

Capital Markets Flash Report

For the Month Ending December 31, 2013

US Equity	Dec-13	YTD
Large Stocks:		
S&P 500	2.5%	32.4%
Russell 3000	2.6%	33.6%
Russell 1000	2.7%	33.1%
Russell 1000 Growth	2.9%	33.5%
Russell 1000 Value	2.5%	32.6%
Small Stocks:		
Russell 2000	2.0%	38.8%
Russell 2000 Growth	2.0%	43.3%
Russell 2000 Value	1.9%	34.5%
International Equity**		
MSCI All-Country World ex-US	0.9%	15.8%
MSCI EAFE	1.5%	23.3%
MSCI EAFE Growth	1.6%	22.9%
MSCI EAFE Value	1.4%	23.6%
MSCI Europe	2.3%	26.0%
MSCI Japan	0.8%	27.4%
MSCI Emerging Markets	-1.4%	-2.3%
Hedge Funds***		
HFRX Indexes:		
Convertible Arbitrage	0.3%	3.5%
Distressed	1.1%	10.4%
Equity Hedge	-0.2%	5.1%
Equity Market Neutral	1.0%	10.9%
Event Driven	0.3%	1.8%
Macro	0.0%	13.5%
Relative Value Arbitrage	0.6%	9.2%
Fixed Income		
U.S. Intermediate Treasuries (1)	-0.8%	-1.3%
U.S. Long Treasuries (2)	-1.9%	-12.7%
U.S. TIPS (3)	-1.5%	-8.6%
Tax-Exempt Bonds (4)	-0.3%	-2.6%
Corporate Bonds (5)	-0.2%	-1.8%
High-Yield Bonds (6)	0.5%	7.4%
Real Assets		
Commodities (7)	1.2%	-9.5%
Real Estate Investment Trusts (8)	0.6%	2.9%

Overview

Happy New Year! On December 18th, the Federal Reserve announced it would begin tapering bond purchases in January, responding to improving economic fundamentals. Days after the landmark announcement, 3rd quarter GDP growth was revised to 4.1% from the prior 3.6% estimate. The surprising high growth was driven by business inventory build up that consumers appear to have absorbed during a strong holiday shopping season. Upticks in US consumer confidence and home prices continue to fuel a recovering economy.

US Equity

US equities punctuated 2013 with most benchmark indices setting record highs. The S&P 500 gained 2.5% in December solidifying its largest annual gain in over a decade (32.4%). Even more impressive were small cap stocks that gained nearly 40% for the year! Top-performing sectors in 2013 were healthcare, consumer discretionary, and producer durables (gains of 40% or more) while utilities, consumer staples, and commodity-sensitive sectors such as materials and energy lagged the broader market.

International Equity

European shares rose 2.3% in December, leading developed markets higher by 1.5%. The Euro strengthened 1.2% while the Yen fell against the US dollar (3% in December, 18% in 2013). These currency moves highlight renewed confidence in Europe's economy and the success of "Abenomics" in Japan. Emerging markets lagged (again) falling 1.4% in December and slightly down for the year. EM underperformance relative to developed markets is particularly surprising given renewed EM export strength. EM equity valuations remain lower than developed markets as investors question EM growth prospects.

Hedge Funds

On average, the most successful hedge strategies of 2013 were long-short equity strategies (the higher the net equity exposure, the better). Conversely, 2013 proved a challenging year for credit strategies as global interest rates increased and already tight credit spreads held steady. In 2014, we expect favorable conditions to persist for equity-oriented strategies while credit-oriented strategies will face similar challenges as in 2013.

Fixed Income

Although many investors initially discounted the impact of the Fed's taper announcement on interest rate levels, growth-driven interest rate increases ultimately led to mark-to-market losses on intermediate and long-maturity bonds. The 10-year Treasury note yields 3%, nearly double its 2013 low of 1.6%, and is overvalued based on Greycourt's estimate of fair value. High yield bonds continue to provide a relatively high level of income and interest rate protection as the negative impact of rising rates has been amply offset by low defaults and improving economic prospects.

Real Assets

Commodities rose 1.2% in December as prospects for global economic growth firmed, influenced by US GDP growth and encouraging consumer spending. Industrial metals and WTI crude oil posted mid-single-digit monthly gains while natural gas prices continued their recent rally in anticipation of harsh winter weather in the US. Precious metals lagged other commodities significantly this month, capping an abysmal year for gold and silver (both lost approximately 1/3 of their respective values in 2013). REITs were among the worst equity performers this year as interest rate and valuation concerns sparked massive outflows. Indiscriminate selling of course is providing many interesting and compelling investment opportunities.

*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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