

US Equity	Jan-14	YTD
<b>Large Stocks:</b>		
S&P 500	-3.5%	-3.5%
Russell 3000	-3.2%	-3.2%
Russell 1000	-3.2%	-3.2%
Russell 1000 Growth	-2.8%	-2.8%
Russell 1000 Value	-3.6%	-3.6%
<b>Small Stocks:</b>		
Russell 2000	-2.8%	-2.8%
Russell 2000 Growth	-1.7%	-1.7%
Russell 2000 Value	-3.9%	-3.9%
<b>International Equity**</b>		
MSCI All-Country World ex-US	-4.5%	-4.5%
MSCI EAFE	-4.0%	-4.0%
MSCI EAFE Growth	-4.5%	-4.5%
MSCI EAFE Value	-3.6%	-3.6%
MSCI Europe	-3.9%	-3.9%
MSCI Japan	-3.9%	-3.9%
MSCI Emerging Markets	-6.5%	-6.5%
<b>Hedge Funds***</b>		
<b>HFRX Indexes:</b>		
Convertible Arbitrage	0.7%	0.7%
Distressed	0.7%	0.7%
Equity Hedge	1.0%	1.0%
Equity Market Neutral	-0.8%	-0.8%
Event Driven	0.8%	0.8%
Macro	0.5%	0.5%
Relative Value Arbitrage	-0.4%	-0.4%
<b>Fixed Income</b>		
U.S. Intermediate Treasuries <sup>(1)</sup>	0.9%	0.9%
U.S. Long Treasuries <sup>(2)</sup>	5.5%	5.5%
U.S. TIPS <sup>(3)</sup>	2.0%	2.0%
Tax-Exempt Bonds <sup>(4)</sup>	1.9%	1.9%
Corporate Bonds <sup>(5)</sup>	1.7%	1.7%
High-Yield Bonds <sup>(6)</sup>	0.7%	0.7%
<b>Real Assets</b>		
Commodities <sup>(7)</sup>	0.3%	0.3%
Real Estate Investment Trusts <sup>(8)</sup>	3.3%	3.3%

## Overview

US GDP grew by 3.2% in the 4<sup>th</sup> quarter, slower than last quarter's 4.1% yet very strong compared to 1.9% for all of 2013. Responding to the economic upswing, and facing reduced supplies of new securities, the Federal Reserve reduced monthly bond purchases by another \$10B. Treasuries benefitted from this news while EM currencies further weakened. Looking ahead, Congress will confront the nation's debt limit once more in early February as taxpayers see our representatives' struggle with the meaning and purpose of limits.

## US Equity

Volatility in US equity markets (as indicated by options markets) jumped by 33% in January as the S&P 500 fell 3.5% and small cap stocks lost 2.8%. Consumer stocks led the market lower after record gains in 2013. With roughly half of S&P 500 companies reporting for the 4<sup>th</sup> quarter, earnings and revenue growth was upbeat compared to forecasts as 79% and 66% of companies beat their earnings and revenue targets respectively. Guidance has tended to fall short, however, as tech giants Apple and Amazon, as well as Boeing, disappointed expectations. Conversely, investors cheered the results of Caterpillar and Facebook.

## International Equity

Developed international equities dropped 4% in January as investors fled to the perceived safety of sovereign bonds in the US and Japan. Emerging market equities fell precipitously losing 6.5% on fears that Fed tapering would prompt a destructive capital flight. Pressure on EM central banks was particularly acute in Turkey, Argentina, and South Africa where drastic rate hikes were announced in hopes of stemming the tide of capital outflows.

## Hedge Funds

If January's economic and market developments indicate what lies ahead for hedge funds, 2014 will be eventful. Global macro strategies will have to react to evolving, divergent, and possibly chaotic central bank policies. Long-short equity strategies will attempt to exploit elevated equity valuations while credit strategies will scour the globe for sources of absolute and relative value. For the month, it seems lower-volatility, absolute return strategies will fall between those of stocks and bonds providing significant downside protection.

## Fixed Income

Interest rates fell this month despite Fed tapering. The decline generated 2% monthly gains in TIPS and corporate bonds even as bond fund outflows increased. High-yield bonds appreciated slightly as spreads widened a bit. In municipal finance, Detroit's emergency manager proposed a deal that would give GO-muni bond holders less than 50 cents on their principal with similar haircuts for the city's retirees. The final outcome for Detroit, its pensioners, and its creditors is far from decided. What's clear is that Detroit's plight will continue to shape investors' perceptions of risks in the municipal bond market.

## Real Assets

Commodity prices in aggregate were flat in January despite concerns regarding EM growth and broad-based weakness in global equities. WTI and Brent crude oil prices were down while the price of natural gas spiked higher by nearly 20% in response to harsh winter weather in the US. REITs significantly outperformed other equity sectors in January as interest rate fears subsided a bit.

\*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 Return (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