GREYCOURT

Capital Markets Flash Report

For the Month Ending May 31, 2014

US Equity	May-14	YTD
Large Stocks:		
S&P 500	2.3%	5.0%
Russell 3000	2.2%	4.3%
Russell 1000	2.3%	4.9%
Russell 1000 Growth	3.1%	4.3%
Russell 1000 Value	1.5%	5.5%
Small Stocks:		
Russell 2000	0.8%	-2.0%
Russell 2000 Growth	1.0%	-3.8%
Russell 2000 Value	0.6%	-0.2%
International Equity**		
MSCI All-Country World ex-US	2.0%	4.1%
MSCI EAFE	1.8%	4.1%
MSCI EAFE Growth	2.1%	3.1%
MSCI EAFE Value	1.4%	5.1%
MSCI Europe	1.1%	6.0%
MSCI Japan	4.1%	-4.2%
MSCI Emerging Markets	3.5%	3.5%
Hedge Funds***		
HFRX Indexes:		
Convertible Arbitrage	-0.1%	0.7%
Distressed	0.9%	4.1%
Equity Hedge	-0.1%	-0.3%
Equity Market Neutral	-1.7%	0.9%
Event Driven	0.6%	2.8%
Macro	1.0%	-0.6%
Relative Value Arbitrage	0.5%	1.3%
Fixed Income		
U.S. Intermediate Treasuries (1)	0.7%	1.7%
U.S. Long Treasuries (2)	2.9%	12.4%
U.S. TIPS (3)	2.1%	5.5%
Tax-Exempt Bonds (4)	1.3%	5.9%
Corporate Bonds (5)	1.3%	5.5%
High-Yield Bonds (6)	0.9%	4.6%
Real Assets		
Commodities (7)	-2.9%	6.4%
Real Estate Investment Trusts (8)	2.9%	15.0%

Overview

Led by significant reductions in inventory investment, first quarter US GDP was revised down to a -1% annual rate. Real final sales, however, grew by 1.6% which suggests that inventories and growth will rebound next quarter. Initial jobless claims, a key *leading* indicator, also came in at 300,000 bringing the four-week average to its lowest level since early 2007 while unemployment fell to 6.3%. Fueled by higher stock prices and rising home values, consumer confidence reached its second-highest level since 2008 as the Fed expressed concerns about the health of the housing market and indicated a reluctance to raise interest rates. The combination of growth, sustained repression, and complacency/low volatility is prompting some investors to rethink inflationary and market risks.

US Equity

The S&P 500 returned 2.3% (up 5% year-to-date) setting a record intra-day high on the last trading day in May. Technology and healthcare stocks were the leaders this month, bouncing back from their huge losses in March and April. Earnings season came to an end this month with overall readings indicating anemic earnings growth (dragged down by the finance sector) and negative guidance. Continued weakness in small cap stocks during the first few weeks in May sent small caps into official correction territory. Nonetheless, the Russell 2000 broke some key technical barriers to end the month in positive territory, gaining 0.8% and bringing year-to-date performance to -2%.

International Equity

Developed international equities gained 1.8% in May (up 4.1% year-to-date). Japan's GDP rose to 5.9% in the first quarter as retail buyers spent ahead of the April sales tax increase, and Japanese equities ended the month in positive territory for the first time this year (up 4.1%). Currently, investors are preparing for the ECB to lower its deposit rate below zero to combat disinflation. Russian sanctions and associated turmoil continue to raise concerns for investors. Notwithstanding these disruptions, Russian equities surged in to double digits this month. Emerging market equities advanced 3.5% in May on strong fund flows despite negative macroeconomic data from China.

Hedge Funds

Most hedge fund strategies generated modest gains in May with macro and distressed equity/credit leading the way. Many hedge fund managers de-risked their portfolios on a gross and net basis by selling out of, or shorting, higher valuation, higher growth names while others have struggled with the reversal of interest rates and currency markets. A recent rise in European M&A activity has provided yet another boost for event-driven managers with exposure to European markets. Credit strategies benefitted from modest spread tightening while convertible arbitrage names were flat to negative for the month as implied volatility fell.

Fixed Income

US Treasury yields fell sharply in May as the 10-Year Treasury yield ended the month at 2.48% (its lowest level since last summer). Demand for US Treasuries has increased recently for several reasons including a weaker labor market, low European sovereign rates, and pension plan reallocations (as a result of the run up in equities last year). The decline in rates led to another outsized gain for long-term Treasuries (2.9% for the month), bringing year-to-date total return to 12.4%. TIPS have also rallied and experienced significant gains as implied inflation expectations have risen. High yield bonds continue to push the limits of absolute yield as well as spreads and total returns. A bear flattener will not be kind to high yield investors.

Real Assets

Commodities fell 2.9%, reducing year-to-date returns to 6.4%, as concerns about slowing growth and possible stronger US$ policies reduced commodity demand. Risks of supply disruptions in precious metals drove platinum and palladium prices higher while REITs returned 2.9% this month, bringing year-to-date total return to 15% (now 10 percentage points ahead of the S&P 500). In the first quarter, the S&P/Case-Shiller Price Index rose 0.9%, beating expectations of a 0.7% decline for the 20-city composite index. While still positive, housing price gains have decelerated since the beginning of the year.

*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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