GREYCOURT

Capital Markets Flash Report

For the Month Ending September 30, 2014

US Equity	**Sep-14**	**YTD**
S&P 500	-1.4%	8.3%
Russell 1000	-1.8%	8.0%
Russell 1000 Value	-2.1%	8.1%
Russell 1000 Growth	-1.5%	7.9%
Russell 2000	-6.0%	-4.4%
Russell 2000 Value	-6.7%	-4.7%
Russell 2000 Growth	-5.4%	-4.0%
Non-US Equity		
MSCI All-Country World ex-US	-4.8%	0.4%
MSCI EAFE	-3.8%	-1.0%
MSCI Europe	-3.7%	-1.4%
MSCI Japan	-0.6%	-1.4%
MSCI EAFE Value	-4.1%	-0.1%
MSCI EAFE Growth	-3.5%	-1.9%
MSCI Emerging Markets	-7.4%	2.7%
MSCI BRIC	-9.1%	1.6%
Fixed Income[1]		
U.S. Intermediate Treasuries	-0.4%	1.6%
U.S. Long Treasuries	-1.9%	15.2%
U.S. TIPS	-2.5%	3.7%
Corporate IG Bonds	-1.6%	5.3%
High-Yield Bonds	-2.1%	3.5%
Tax-Exempt Bonds	0.1%	7.6%
Currencies		
US Dollar[2]	3.9%	7.4%
Euro	-3.8%	-8.1%
Yen	-5.1%	-4.0%
Emerging Markets[3]	-3.0%	-0.1%
Real Assets		
Commodities[4]	-6.2%	-5.6%
Energy	-4.4%	-4.4%
Industrial Metals	-6.6%	-0.7%
Gold	-5.9%	0.6%
Real Estate Investment Trusts[5]	-5.6%	13.4%
Hedge Strategies[6]		
Equity Hedge	0.1%	1.5%
Equity Market Neutral	0.3%	2.6%
Event Driven	-2.7%	1.9%
Convertible Arbitrage	0.0%	-0.4%
Distressed	-2.5%	3.2%
Macro	1.3%	2.3%
Relative Value Arbitrage	-0.7%	-0.1%

Overview

Second quarter US GDP was revised up to 4.6%, marking the fastest growth since 4Q 2011. The upbeat data was driven by strong retail sales and rising exports. Consistent with this growth, the FOMC announced plans to normalize monetary policy and released forecasts of the Fed Funds rate by its members that confirm the economy is squarely mid-cycle in the business cycle. Against this backdrop of fundamental progress, however, complacent markets reacted strongly to geopolitical events, expectations of rising rates, and stretched valuations by selling off across the board.

US Equity

Despite the S&P 500 reaching its all-time high, US stocks fell in September. The S&P 500 declined 1.4% with most of its losses realized during the last few trading days. The fall punctuated a period of increasing volatility influenced by expectations of rising interest rates and significant geopolitical uncertainties. Small cap stocks dropped 6% erasing the majority of gains realized last month. This drop was a particular milestone as the Russell 2000 50-day moving average fell below its 200-day moving average, a harbinger of correction for market technicians and fundamental recognition of excessive valuations.

Non-US Equity

Non-US stocks fell as fundamentals and geopolitical events (Russia/Ukraine, UK elections, Catalonian secession, ISIS/Iran, Hong Kong, and so on) took their toll. European stocks, after rallying to their highest level since January 2008 in the wake of Scotland's independence vote, ended down 3.7% as confidence slipped and economic data lagged despite the radical actions of the ECB to stimulate growth. Asian markets, already reacting to slowing China growth, were severely impacted by the pro-democracy protests in Hong Kong while emerging markets stocks erased their year-to-date gains falling 7.4% as EM currencies adjust to slowing growth against the US and expectations of rising US interest rates.

Fixed Income

Weakness in fixed Income markets was also broad-based as most major indices posted declines. Although Treasuries benefitted during the month as investors sought a safe haven from global stock markets, the tug-of-war in 10-year yields ended the month at 2.52% as GDP growth improved and markets reacted to the FOMC forecasts. Volatility in rates spiked after PIMCO's announcement of Bill Gross' departure on concerns the world's largest bond manager would unwind portions of its large Treasury positions. High yield bonds declined 2.1% as investors unloaded high risk debt. Again, stretched valuations and interest rate expectations drove investor reactions.

Currencies

The big story in September was the US dollar that is enjoying its best year since 2008. The dollar is up 7.4% with the majority of the gain realized during the third quarter as the US is experiencing accelerating growth while overseas growth is slowing or stagnating in the case of Europe. The Euro and the Yen declined against the US dollar as the ECB and the BoJ use monetary stimulus to boost slumping economies while at the same time the Fed is on track to end monetary stimulus next month and raise interest rates for the first time since 2006. Currencies of emerging countries predictably fell as Brazil's Real tumbled to a five-year low.

Real Assets

Slowing global growth and a strong US dollar pushed commodities down by 6.2%. All commodity constituents declined this month, pushing the year-to-date returns into negative territory. Wheat prices tumbled the most this month amid prospects of record production and outsized supply. Oil prices hit a two-year low which is especially interesting given geopolitical instabilities across oil producing regions as slow growth and weak industrial output data from China drive expectations. REITs also dropped this month (-5.6%) lowering the year-to-date return to 13.4%. Home construction fell 14.4% in August, reversing the strong rebound in July. As a result of a limited supply in inventory, existing homes sales also declined 5.3% year-over-year.

Hedge Strategies

Performance results for hedge strategies were mixed this month. Volatility spiked last week but remains below historical averages. CalPERS, the largest US public pension fund, announced their decision to exit all hedge funds strategies which could be viewed as a possible warning sign to the industry. Equity hedge managers that were short the Russell 2000 benefitted from declining small cap stocks while macro and relative value managers that were long the US dollar benefited from the surge in the greenback. Among the worst performing strategies this month were event driven and distressed managers.

Data Source: Bloomberg. MSCI returns are gross USD. Currency returns are Simple Price Appreciation (SPA) USD basis. [1] Fixed Income reported on Barclays Indices. [2] US Dollar Index [3] MSCI Emerging Markets Currency Index [4] Bloomberg Commodity Indices [5] FTSE NAREIT Equity REIT Index [6] Hedge strategy returns are SPA reported on HFRX Indices with one day lag . For complete Index Descriptions, see http://www.greycourt.com/indices.html

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