GREYCOURT

Capital Markets Flash Report

For the Month Ending October 31, 2014

US Equity	Oct-14	YTD
S&P 500	2.4%	11.0%
Russell 1000	2.4%	10.6%
Russell 1000 Value	2.2%	10.5%
Russell 1000 Growth	2.6%	10.7%
Russell 2000	6.6%	1.9%
Russell 2000 Value	7.0%	1.9%
Russell 2000 Growth	6.2%	1.9%
Non-US Equity		
MSCI All-Country World ex-US	-1.0%	-0.6%
MSCI EAFE	-1.4%	-2.4%
MSCI Europe	-2.6%	-4.0%
MSCI Japan	-1.3%	-2.6%
MSCI EAFE Value	-2.0%	-2.1%
MSCI EAFE Growth	-0.9%	-2.7%
MSCI Emerging Markets	1.2%	4.0%
MSCI BRIC	2.6%	4.2%
Fixed Income[1]		
U.S. Intermediate Treasuries	0.7%	2.3%
U.S. Long Treasuries	2.8%	18.3%
U.S. TIPS	0.9%	4.6%
Corporate IG Bonds	1.0%	6.3%
High-Yield Bonds	1.2%	4.7%
Tax-Exempt Bonds	0.7%	8.3%
Currencies		
US Dollar[2]	1.1%	8.6%
Euro	-0.8%	-8.9%
Yen	-2.4%	-6.3%
Emerging Markets[3]	0.1%	-0.1%
Real Assets		
Commodities[4]	-0.8%	-6.3%
Energy	-9.1%	-13.1%
Industrial Metals	1.5%	0.8%
Gold	-3.3%	-2.7%
Real Estate Investment Trusts[5]	9.0%	23.6%
Hedge Strategies[6]		
Equity Hedge	-0.8%	0.4%
Equity Market Neutral	0.9%	3.6%
Event Driven	-5.3%	-3.9%
Convertible Arbitrage	-0.9%	-2.1%
Distressed	-2.7%	0.4%
Macro	0.1%	2.6%
Relative Value Arbitrage	0.0%	-0.1%

Overview

Third quarter US GDP grew 3.5%, surpassing analysts' forecasts and marking the strongest back-to-back readings since 2003. Encouraged by a narrowing trade gap, improving manufacturing, and stronger consumer confidence, the Fed concluded its bond-buying program. Contrasted against this progress, the global recovery has become increasingly uneven, exposing renewed weakness in the Euro-zone and Japan. In response, the Bank of Japan and the Government Pension Investment Fund (GPIF) surprised markets by jointly announcing stimulative policies involving changes in the GPIF's asset allocation expected to boost stock prices and weaken the Yen. Now the focus will turn to the ECB.

US Equity

US stocks rose alongside global equities during the final day of the month, encouraged by the BoJ's stimulus measures and the strong US GDP results. The robust 2.4% return for the S&P 500 belied spiking intra-month volatility that was driven by recession concerns in the Euro-zone, slowing growth in China, and uncertainty about when the Fed would officially end QE. Small cap stocks also rallied significantly in the final weeks of October as the Russell 2000 returned 6.6% for the month after sliding more than 10% from an all-time high in March.

Non-US Equity

Central bank actions were significant throughout October starting with the ECB's asset purchasing program introduced early in the month and ending with the unexpected policy moves in Japan on the 31st. The BoJ's surprise provided a significant last-day jump in prices helping international developed and Japanese stocks trim substantial earlier losses to finish down 1.4% and 1.3% respectively. Emerging market equities grew 1.2% despite facing headwinds from China's housing crisis, dampened growth expectations following Brazil's election, and geopolitical tensions that are dragging Russia's economy into recession.

Fixed Income

US Treasuries continued their year-to-date rally in October pushing the 10-year notes to the most overbought level in more than a decade. The benchmark 10-year yield slid 17 basis points to 2.35%, down from 2.52% in September. Intermediate and long term Treasuries gained 0.7% and 2.8% respectively, as investors sought safe haven amid concern of faltering global growth. Interestingly, demand has also outpaced supply in the municipal bond market as tax-exempt bonds gained 0.7% for the month, bringing the year-to-date return to 8.3%, its highest 10-month finish since 2009.

Currencies

The US dollar rose 1.1% from mid-month lows in the final days of October on news of sustained US growth and global central bank stimulus measures. The dollar continues to strengthen on prospects of tighter US monetary policy in contrast to global central banks that are deliberately pursuing policies that will weaken their currencies. Currencies within the emerging markets gained in October, as Brazil's central bank raised target lending rates by 0.25% to ensure an improved inflation outlook over the coming years.

Real Assets

Slowing global growth and bloated oil supplies pushed commodity returns down 0.8% for the month. Oil and natural gas prices fell 9.1% in aggregate as crude collapsed into a bear market amid global stockpiles and the highest production levels in more than three decades. In stark contrast, transportation delays spiked soybean and corn prices, generating outsized 13.9% and 17.5% returns. REITs also surged 9.0% for the month setting it apart as the top-performing major asset class year-to-date. Housing fundamentals continued to improve with distressed sales at the lowest point since 2008 and Q3 transaction volume experiencing its largest rebound ever.

Hedge Strategies

Returns across hedge strategies were mixed in October as volatility spiked early in the month generating losses for L/S equity managers within the energy, industrial, and information technology sectors. Despite early declines, equity strategies reduced energy exposure and subsequently recovered 70-80% from mid-month lows. Event driven and distressed were the worst performing strategies for the month, recovering only 50-60% of early losses, and falling 5.3% and 2.7% respectively.

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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