GREYCOURT

Capital Markets Flash Report

For the Month Ending February 28, 2015

US Equity	Feb-15	YTD
S&P 500	5.7%	2.6%
Russell 1000	5.8%	2.9%
Russell 1000 Value	4.8%	0.6%
Russell 1000 Growth	6.7%	5.0%
Russell 2000	5.9%	2.5%
Russell 2000 Value	4.6%	0.3%
Russell 2000 Growth	7.2%	4.8%
Non-US Equity		
MSCI All-Country World ex-US	5.4%	5.2%
MSCI EAFE	6.0%	6.5%
MSCI Europe	6.3%	6.3%
MSCI Japan	6.1%	8.6%
MSCI EAFE Value	6.3%	6.0%
MSCI EAFE Growth	5.7%	7.0%
MSCI Emerging Markets	3.1%	3.7%
MSCI BRIC	4.4%	5.6%
Fixed Income[1]		
U.S. Intermediate Treasuries	-0.9%	0.7%
U.S. Long Treasuries	-5.4%	2.8%
U.S. TIPS	-1.2%	1.9%
Corporate IG Bonds	-1.1%	1.9%
High-Yield Bonds	2.4%	3.1%
Tax-Exempt Bonds	-1.0%	0.7%
Currencies		
US Dollar[2]	0.5%	5.6%
Euro	-0.8%	-7.5%
Yen	-1.7%	0.1%
Emerging Markets[3]	0.2%	-0.5%
Real Assets		
Commodities[4]	2.6%	-0.8%
Energy	8.4%	1.1%
Industrial Metals	1.1%	-4.3%
Gold	-5.2%	2.4%
Real Estate Investment Trusts[5]	-3.0%	2.9%
Hedge Strategies[6]		
Equity Hedge	2.2%	1.5%
Equity Market Neutral	0.4%	0.5%
Event Driven	2.5%	0.9%
Relative Value Arbitrage	1.8%	1.6%
Distressed	2.2%	0.5%
Macro	0.7%	2.7%

Overview

In contrast to January, stock returns were extraordinary in February, bonds generally lost money, oil prices rebounded nicely, and the US dollar slowed its rate of appreciation against most currencies. Growth and inflation data help explain much of the returns, although central bankers remain at the heart of the story. Fed Chair Yellen's comments reassured markets about the timing and risks of US interest rate increases while policymakers in Europe and Japan commenced QE similar to what has driven US equity returns. Other central banks, including the People's Bank of China (the "PBOC"), have eased interest rates as well. Importantly, near-zero interest rates and low bond yields characterize the major advanced economies. In this environment, fixed income assets offer little income or opportunity for capital appreciation and hence meager prospective total returns.

US Equity

US stocks surged in February with the S&P 500 gaining 5.7% and the Russell 2000 5.9%. Lower energy prices and improving demand for labor suggested increased disposable income, consumer spending, and economic expansion. Despite stretched valuations, investors bought stocks as Q4 earnings exceeded expectations even as forecast Q1 earnings were revised down. With realized inflation low and the US dollar strong, the Fed was dovish in its signals regarding interest rate increases. In a month of rapidly contracting volatility, measured by the VIX, small cap stocks performed in line with large cap stocks driven by solid US domestic demand and limited drag from the US dollar.

Non-US Equity

Developed and emerging market (EM) stocks soared 5.4% against a backdrop of lower oil prices, competitive currencies, economic growth, massive stimulus by the ECB and BoJ, and generally accommodative central bank policies. European equities advanced 6.3% as Eurozone GDP grew faster than analysts' expectations and the Draghi-led ECB announced a €1.1 trillion asset-purchasing plan. Japanese equities gained 6.1% as exports surged 17% in January to facilitate recovery from a technical recession. EM stocks rose 3.1% to finish at their highest level since October 2013. Easing by the PBOC and progress toward a Ukrainian cease-fire have helped push EM stocks up 3.7% this year.

Fixed Income

Broad-based weakness characterized fixed income markets with the notable exception of high-yield bonds. Long-dated Treasuries led the decline falling 5.4% as stabilizing oil prices and Greece's putative bailout reduced flight-to-quality purchases. The 10-year US Treasury yield finished at 2.03% up sharply from January's 1.68%. High-yield bonds returned 2.4% as yield seekers exploited across-the-board spread increases precipitated by falling oil prices last month.

Currencies

The US dollar continued to strengthen in February at a much slower rate, finding support in US Core CPI data (excludes food and energy prices) that rose only 0.2% in January. With sovereign yields across the Eurozone falling in anticipation of the ECB's quantitative easing program, investors are starting to wonder if perhaps the US dollar is fully discounting positive outcomes for US growth and overall monetary and fiscal policy success.

Real Assets

Commodity returns were mostly positive for the month led by energy. Natural gas, the third largest component of the Bloomberg Commodity Index, rose in response to increased heating fuel demand in the coldest February on record in the US since the 1970s. Oil rebounded 16% this month as rig counts and onshore drilling activity predictably reacted to lower prices. Gold declined 5.2% for the month against a strengthening US dollar and outstanding global equity returns that diminished bullion's appeal as a store of wealth.

Hedge Strategies

Hedge strategies exploited global stocks, led by Event Driven (ED) and Equity Hedge strategies that gained 2.5% and 2.2% respectively. Strong gains in energy names and idiosyncratic positions—mainly special situations—added significant value to ED strategies. Given current markets, ED strategies are returning to positive territory after underperforming in 2014. Global macro strategies have also posted strong performance, up 2.7% since the start of the year based on short positions in rates and better management of risk exposures.

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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