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January 2012: Market Review

Despite little change in the broad macroeconomic cross-currents concerning European sovereign debt woes, asset bubbles in China, and tepid worldwide GDP growth, global equity markets were particularly strong in January. The Dow Jones Industrial Average gained 3.55% in the first month of 2012. The S&P 500 Index rose 4.48% for the month, its best January since 1997, and is up more than 22% since its 2011 low in early October.

While European economic issues dominated headlines in January, the U.S. continued to face its own mixed economic news. U.S. gross domestic product grew at a 2.8% annual rate in the fourth quarter of 2011, its fastest pace since the second quarter of 2010. Despite recent drops in unemployment, which now stands at 8.5%, consumer confidence fell in January. The most recent S&P/Case-Shiller Home Price Index report shows that home prices fell in November on a month-over-month basis. New home sales in 2011 were the worst since 1963, the year in which records were first kept. Among commodities, barrels of WTI crude oil ended January at \$98, while gold closed the month at \$1737 per troy ounce, up from \$1565 at the end of December.

Growth style equities outperformed value style equities across all capitalizations in January. Among large cap stocks, the Russell 1000 Growth Index grew 5.97% in January, while the Russell 1000 Value Index gained 3.78%. Small cap stocks were also up significantly in January, as the Russell 2000 Growth Index rose 7.48% and the Russell 2000 Value Index added 6.65%. The Russell Midcap Index closed the month up 6.06%.

International equity markets rose in January, even as solutions to Europe's sovereign debt crisis remain elusive. Greece's debt negotiations are expected to conclude with the country swapping its debt for new bonds with half the face value, lower interest rates, and longer maturities, but no deal has been reached yet. Rising rates on Portugal's debt created fears that a situation similar to Greece's could develop in that country. European leaders agreed to a new fiscal pact, sponsored by Germany, which will enact closer budget oversight in order to avoid future debt crises. The pact would allow the European Court of Justice to impose fines on euro countries operating with average budget deficits of more than 0.5% of GDP over the course of an economic cycle. The MSCI EAFE Index finished January up 5.33%. The MSCI Europe Index gained 4.69%. The MSCI Emerging Markets Index was up 11.34%.

Fixed income performance was generally positive in January as interest rates remained at record lows. The Federal Reserve announced during the month that it is likely to keep the Federal Funds rate near zero until at least 2014. The Barclays U.S. Aggregate Bond Index gained 0.88% during the month. The Barclays U.S. Treasury Index ended January up 0.42%. The Barclays Treasury 20+ Year Index, the top-performing fixed income index of 2011, fell (0.29%) for the month. The Barclays Corporate High Yield Index grew 3.04% during the month.

While continuing to have dark global macroeconomic clouds overhead, such as the debt crisis in Europe and a potential hard landing for China's economy, investors saw a silver lining in these troublesome skies in January. The global economic and political forecast should become clearer over the next several months and investors will find out whether their January optimism was warranted or that access to shelter from the continuing investment storm is still needed.