June 2016: Market Review

Global equity markets were mixed in June as investors grappled with the uncertainty created by the decision of voters in the United Kingdom to leave the European Union. Following the initial plunge after the referendum, markets staged a strong rally, but it was not enough to lift all markets into the black for the month. The Dow Jones Industrial Average rose 0.95% in the month and is up 4.31% for the year. The S&P 500 Index gained 0.26% and has added 3.84% in 2016. The NASDAQ Composite was down (2.13%) for the month and is off (3.29%) so far year-to-date.

In U.S. economic news, the final reading of first quarter 2016 real GDP came in at 1.1% annualized growth, an increase from the second estimate of 0.8% growth. The Federal Reserve did not raise rates at its June meeting, and the “Brexit” vote greatly reduced expectations of a rate increase in July and for the remainder of 2016 due to increased economic uncertainty; futures markets are now pricing in around an 8% chance of an increase at any point this year. The most recent S&P/Case-Shiller National Home Price Index report showed that on a month-over-month basis, home prices were up 1.05% in April, while on a year-over-year basis, prices were 5.03% higher than a year ago. Among commodities, WTI crude oil ended June at $48 a barrel, down slightly from $49 at the end of May. Gold closed June at $1318 per troy ounce, up 8.5% from May’s month-end price of $1215. The metal is up over 24% for the year.

Value-style equities outperformed growth-style equities across all capitalizations in June, and value remains firmly ahead of growth for the year. Among large cap stocks, the Russell 1000 Value Index gained 0.86% during the month and is up 6.30% for the year, while the Russell 1000 Growth Index fell (0.39%), but has appreciated 1.36% year-to-date. In small cap stocks, the Russell 2000 Value Index rose 0.30% and has added 6.08% this year, while the Russell 2000 Growth Index dipped (0.46%) and has lost (1.59%) year-to-date. The Russell Midcap Index closed the month up 0.46%, leaving it with a gain of 5.50% so far in 2016.

International equity markets were mostly negative in June as the Brexit decision toward the end of the month shocked markets. The MSCI EAFE Index ended the month off (3.36%) and has lost (4.42%) for the year. The MSCI Europe Index fell (4.45%) during June and is down (5.13%) for the year. The MSCI Pacific Index dipped (1.37%) and is off (2.94%) year-to-date. The MSCI Emerging Markets Index was up 4.00% in June, led by strength in Brazil, which gained 19.48% for the month. The Index has risen 6.41% so far in 2016.

In U.S. fixed income markets, investors seeking safety after the Brexit vote piled into U.S. government bonds, driving down the yield on the 10-Year Treasury to 1.49%, just above its all-time closing low of 1.40%, set in July 2012. The yield at the end of May was 1.83%. The Barclays U.S. Aggregate Bond Index gained 1.80% and has added 5.31% year-to-date. The Barclays U.S. Treasury Index added 2.21% during the month and is up 5.37% in 2016. The Barclays Treasury 20+ Year Index rose 6.42% and has gained 15.82% year-to-date. The Barclays Corporate High Yield Index closed the month with a gain of 0.92%, moving its year-to-date return to 9.06%.

The decision of voters in the U.K. to leave the European Union introduces more uncertainty to global markets already dealing with slowing economic growth and unprecedented fiscal stimulus. Markets have rebounded after the initial surprise of the U.K. vote subsided, but whether this upswing in equities can continue into the second half of the year remains to be seen, especially with major events such as the U.S. presidential election and possible Federal Reserve rate action still to come in 2016.