FOURTH STREET PERFORMANCE PARTNERS

Independent Investment Consultants

July 2019: Market Review

Global equity index returns were muted in July as weakening economic momentum and global trade uncertainty juxtaposed support from dovish central banks. Hopes that the Federal Funds target rate range would be lowered by 50 basis points were dashed when the Fed announced a cut of 25 basis points, leading to a -1.1% intraday decline for the S&P 500 Index on the final trading day of the month. The decline was also prompted by Jerome Powell's comment that the cut was a "mid-cycle adjustment" rather than the start of a longer rate-cutting cycle. Furthermore, the FOMC decided to end its balance sheet reduction program in September. The S&P 500 ended July with a +1.4% return and has added +20.2% year-to-date. The Dow Jones Industrial Average rose +1.1% (up +16.7% year-to-date) while the tech-heavy NASDAQ Composite appreciated +2.2% (up +23.9% so far this year).

In U.S. economic news, the first reading of second quarter real GDP showed that growth has moderated to a 2.1% annualized rate, with strength in consumer and government spending but weakness in investment spending. The most recent S&P/Case-Shiller National Home Price Index report showed that on a month-over-month basis, home prices were up +0.8% in May, while on a year-over-year basis, prices were +3.4% higher than a year ago. Among commodities, WTI crude oil ended July at $59 a barrel, unchanged from the end of last month. Gold closed the month at $1,426 per troy ounce, up from $1,410 at the end of June.

Within domestic equities, growth again outperformed value across all capitalization sizes. Among large cap stocks, the Russell 1000 Growth Index added +2.3% versus a +0.8% gain for the Russell 1000 Value Index. In mid cap equities, the Russell Midcap Growth Index appreciated +2.3% for the month while the Russell Midcap Value Index rose +0.8%. In small cap stocks, the Russell 2000 Growth Index gained +1.0% during the month while the Russell 2000 Value Index increased +0.2%.

Most major international indexes posted declines during the month as trade disputes, slowing economic growth, political risks, and a strengthening U.S. dollar were headwinds. The ECB kept interest rates unchanged but signaled plans to implement an easing package in the coming months. Manufacturing data in the Eurozone continued to contract, especially in Germany. The MSCI EAFE Index fell -1.3% for the month but has gained +12.6% year-to-date while the MSCI Europe Index declined -1.9% during the month (up +13.6% so far this year). The MSCI Pacific Index depreciated -0.2% during the month, bringing its year-to-date performance to +11.0%. The MSCI Emerging Markets Index returned -1.2% in July, ending the month with a +9.2% year-to-date gain. Emerging market returns were negatively impacted by weakness in Korea (-6.2%) and India (-5.5%) during the month.

U.S. fixed income markets were mixed in July as bond yields stabilized. The yield on the 10-Year Treasury closed the month at 2.03%, modestly higher than last month's close of 2.00%. The Treasury yield curve flattened in July, with the spread between the 10-Year and 2-Year yields ending the month at 22 basis points, down from 25 basis points at June 30. The spread between the 10-Year and 3-Month yields remains inverted. The Bloomberg Barclays Corporate High Yield Index was the strongest performer, rising +0.6% for the month and has gained +10.6% so far this year. The Bloomberg Barclays Treasury Gov't/Credit Index was flat for the month and ended July up +4.9% year-to-date. The Bloomberg Barclays U.S. Aggregate Bond Index added +0.2% for the month (up +6.4% year-to-date) and the Bloomberg Barclays U.S. Treasury Index declined -0.1% (up +5.1 so far in 2019).

Equity returns were mixed during the month as the Fed was not as dovish as anticipated. Additionally, the outlook for global economic growth is weakening and ongoing trade tensions continue to be a headwind. Earnings growth for the second quarter has been tepid thus far as many companies have exceeded analyst expectations but had a lower hurdle due to analyst pessimism. Despite these challenges, central banks have shown willingness to sustain the global economic expansion through monetary action.