FOURTH STREET PERFORMANCE PARTNERS
Independent Investment Consultants

August 2019: Market Review

Global equity indexes declined in August as renewed escalations of trade tensions and increased risks of an economic downturn weakened investor and business sentiment. New tariffs on Chinese goods and corresponding retaliatory tariffs on U.S. goods took markets by surprise after previous announcements of a ceasefire. The spread between the 10-year and 2-year Treasury yields inverted in August, contributing to declining consumer confidence and heightened recession fears. The S&P 500 declined -1.6% during the month but has added +18.3% year-to-date. The Dow Jones Industrial Average fell -1.3% (up +15.1% year-to-date) while the tech-heavy NASDAQ Composite weakened -2.5% (up +20.9% so far this year).

In U.S. economic news, ongoing trade tensions have created turbulence in the economy. The U.S. manufacturing sector contracted in August for the first time in three years. In addition to the aforementioned yield curve inversion, the yield on the 30-year Treasury bond tumbled below 2% for the first time ever. The most recent S&P/Case-Shiller National Home Price Index report showed that on a month-over-month basis, home prices were up +0.6% in June, while on a year-over-year basis, prices were +3.1% higher than a year ago. Among commodities, WTI crude oil plummeted -28% and ended August at $42 a barrel, down from $59 at the end of last month. Gold rallied 6% and closed the month at $1,519 per troy ounce, up from $1,426 at the end of July.

Within domestic equities, growth again outperformed value across all capitalization sizes. Among large cap stocks, the Russell 1000 Growth Index declined -0.8% versus a -2.9% return for the Russell 1000 Value Index. In mid cap equities, the Russell Midcap Growth Index fell -1.8% for the month while the Russell Midcap Value Index returned -3.5%. In small cap stocks, the Russell 2000 Growth Index decreased -4.3% during the month while the Russell 2000 Value Index slid -5.6%.

Most major international indexes also posted declines during the month as trade disputes, slowing economic growth, political risks, and a strengthening U.S. dollar continued to be headwinds. A potential no-deal Brexit and weakening economic outlook in the Eurozone raised concerns. Despite Chinese efforts to ameliorate the effects of trade tensions, results have been mixed with retail sales data falling short of expectations. The MSCI EAFE Index fell -2.6% for the month but has gained +9.7% year-to-date while the MSCI Europe Index declined -2.5% during the month (up +10.7% so far this year). The MSCI Pacific Index depreciated -2.7% during the month, bringing its year-to-date performance to +8.0%. The MSCI Emerging Markets Index returned -4.9% in August, ending the month with a +3.9% year-to-date gain. Emerging market returns were negatively impacted by weakness in Argentina (-50.5%), Brazil (-9.7%), and China (-4.3%) during the month.

U.S. fixed income markets were positive in August as the flight to safe havens caused a sharp drop in bond yields. The yield on the 10-Year Treasury closed the month at 1.50%, significantly lower than last month's close of 2.03%. The Treasury yield curve inverted mid-month, however the 10-year and 2-year yields were even at August 31 as the spread declined from 22 basis points at July 31 to 0 basis points at August 31. The spread between the 10-year and 3-month yields remains inverted and that inversion grew larger during the month. Long-dated bonds posted significant gains in August as the Bloomberg Barclays Treasury 20+ Year Index increased +10.8% (up +23.4% so far this year). The Bloomberg Barclays U.S. Aggregate Bond Index added +2.6% for the month (up +9.1% year-to-date) and the Bloomberg Barclays U.S. Treasury Index appreciated +3.4% (up +8.6% so far in 2019).The Bloomberg Barclays Gov't/Credit Index added +1.8% during the month and ended August up +6.8% year-to-date. The Bloomberg Barclays Corporate High Yield Index was the weakest performer, rising +0.4% for the month but has gained +11.0% so far this year.

Equity returns were negative during the month as trade tensions and weakening global economic growth outlook continued to afflict markets. The inverted yield curve and negative manufacturing data have also weighed on investor sentiment. Earnings growth forecasts have declined as analysts revised their S&P 500 profit growth estimate from +7.6% at the start of the year to +2.3% in response to the trade outlook. On the other hand, central banks have shown willingness to sustain the global economic expansion through monetary action which may provide some relief.