Fourth Street Performance Partners

Independent Investment Consultants

September 2019: Market Review

Global equity indexes posted gains in September as accommodative monetary policy in the US and Europe and a modest improvement in global economic data overshadowed ongoing trade tensions. The Federal Reserve announced a 25-basis-point cut in the target Federal Funds rate range and the ECB cut rates further below zero and restarted bond purchases. The S&P 500 added +1.9% during the month and has risen +20.6% year-to-date. The Dow Jones Industrial Average increased +2.1% (up +17.5% year-to-date) while the NASDAQ Composite rose +0.5% (up +21.5% so far this year).

In U.S. economic news, ongoing trade tensions continue to dampen sentiment but economic data showed some improvement. While the U.S. manufacturing sector contracted further in September, reaching a ten-year low, lagging indicators such as retail sales, housing statistics, and personal income showed strength. The Fed relieved pressure in the repo market by adding liquidity, controlling a spike in borrowing rates. The final reading of second quarter real GDP indicated that growth has moderated to a 2.0% annualized rate. The most recent S&P/Case-Shiller National Home Price Index report showed that on a month-over-month basis, home prices were up +0.4% in July, while on a year-over-year basis, prices were +3.2% higher than a year ago. Among commodities, WTI crude oil rallied 28% in September to close at $54, rebounding from $42 at the end of last month. Gold fell from $1,519 per troy ounce at the end of August to $1,466 at the end of September.

Within domestic equities, value significantly outpaced growth during the month across all capitalization sizes. Among large cap stocks, the Russell 1000 Growth Index was flat versus a +3.6% return for the Russell 1000 Value Index. In mid cap equities, the Russell Midcap Growth Index fell -1.1% for the month while the Russell Midcap Value Index added +4.1%. In small cap stocks, the Russell 2000 Growth Index decreased -0.8% during the month while the Russell 2000 Value Index surged +5.1%. Despite the value rebound in September, growth has outperformed value year to date.

The major international indexes also posted gains during the month, bolstered by central bank stimulus in response to weakening economic outlook. Ongoing Brexit concerns and the trade war also continued to hurt market sentiment. The MSCI EAFE Index added +2.9% for the month and has gained +12.8% year-to-date while the MSCI Europe Index increased +2.7% during the month (up +13.7% so far this year). The MSCI Pacific Index rose +3.1% during the month, bringing its year-to-date performance to +11.4%. The MSCI Emerging Markets Index returned +1.9% in September, ending the month with a +5.9% year-to-date gain. Emerging market returns were positively impacted by strength in Korea (+6.9%), India (+4.8%), and Taiwan (+4.0%) during the month whereas China underperformed (-0.3%).

U.S. fixed income markets were negative in September as the risk-on environment caused an increase in bond yields. The yield on the 10-Year Treasury closed the month at 1.68%, rising from last month's close of 1.50%. The spread between the 10-year and 2-year yields ended the month at 9 bps, recovering from August's brief inversion. The spread between the 10-year and 3-month yields remains inverted but the dispersion narrowed during the month. High yield bonds were the best performers as the Bloomberg Barclays Corporate High Yield Index rose +0.4% for the month, bringing the year-to-date gain to +11.4%. The Bloomberg Barclays U.S. Aggregate Bond Index declined -0.5% for the month (up +8.5% year-to-date) and the Bloomberg Barclays U.S. Treasury Index depreciated -0.9% (up +7.7% so far in 2019). The Bloomberg Barclays Gov't/Credit Index fell -0.4% during the month and ended September up +6.4% year-to-date. Long-dated bonds were the worst performers in September as the Bloomberg Barclays Treasury 20+ Year Index fell -2.6% (up +20.2% so far this year).

Equity returns were positive during the month as a modest improvement in economic data and accommodative global monetary policy overshadowed ongoing trade tensions. The resurgence of value stock prices in September is notable as investors moved to cheaper positions that could benefit from further improvements in the economic outlook. President Trump's impeachment inquiry could add another level of volatility amidst the tariff uncertainty already embedded in the markets. Investors expect Fed chairman Jay Powell to deliver another 25-basis-point rate cut before Christmas in order to support the historic economic expansion.