FOURTH STREET PERFORMANCE PARTNERS

Independent Investment Consultants

October 2019: Market Review

Global equity indexes climbed higher in October as further monetary easing from the Federal Reserve, trade deal progress, and optimistic economic data in the U.S. pushed the S&P 500 Index to a record high intra-month. The Federal Reserve announced a 25-basis-point cut in the target Federal Funds rate and third quarter GDP growth surpassed Wall Street estimates. The S&P 500 added +2.2% during the month and has risen +23.2% year-to-date. The Dow Jones Industrial Average increased +0.6% (up +18.2% year-to-date) while the tech-heavy NASDAQ Composite rose +3.7% (up +26.1% so far this year).

In economic news, the outlook on the trade dispute between the U.S. and China improved as President Trump indicated that the two nations neared completion of "Phase 1" of an agreement. The first reading of third quarter real GDP indicated that growth has moderated to a 1.9% annualized rate, driven mainly by robust consumer spending. The Fed lowered short-term interest rates by 25 bps but conveyed that it does not intend to implement further rate cuts. The most recent S&P/Case-Shiller National Home Price Index report showed that on a month-over-month basis, home prices were up +0.2% in August, while on a year-over-year basis, prices were +3.2% higher than a year ago. Among commodities, WTI crude oil ended October at $54, flat relative to September's close price. Gold increased from $1,466 at the end of last month to $1,511 at the end of October.

Within domestic equities, growth stocks' outperformance relative to value resumed across all capitalization sizes. Among large cap stocks, the Russell 1000 Growth Index added +2.8% versus a +1.4% return for the Russell 1000 Value Index. In mid cap equities, the Russell Midcap Growth Index gained +1.9% for the month while the Russell Midcap Value Index increased +0.5%. In small cap stocks, the Russell 2000 Growth Index rose +2.9% during the month while the Russell 2000 Value Index added +2.4%.

Major international indexes also posted gains during the month, bolstered by the de-escalation of trade tensions and a weakening U.S. dollar. Brexit concerns subsided for now as the European Union granted a three-month extension for the UK to negotiate a deal. The MSCI EAFE Index added +3.6% for the month and has gained +16.9% year-to-date while the MSCI Europe Index increased +3.2% during the month (up +17.4% so far this year). The MSCI Pacific Index rose +4.2% during the month as Japan posted strong gains, bringing its year-to-date performance to +16.2%. The MSCI Emerging Markets Index returned +4.2% in October, ending the month with a +10.4% year-to-date gain. Emerging market returns were positively impacted by strength in Taiwan (+8.1%), Brazil (+5.9%), and Korea (+4.6%).

U.S. fixed income markets were muted in October as yields, while volatile, were flat for the month. The yield on the 10-Year Treasury closed at 1.69%, a modest increase from last month's close of 1.68%. The spread between the 10-year and 2-year yields ended the month at 17 bps, steepening from a spread of 5 bps at the end of September. The spread between the 10-year and 3-month yields also turned positive. The Bloomberg Barclays U.S. Aggregate Bond Index added +0.3% for the month (up +8.9% year-to-date). High yield bonds posted positive results as the Bloomberg Barclays Corporate High Yield Index rose +0.3% for the month, bringing the year-to-date gain to +11.7%. The Bloomberg Barclays U.S. Treasury Index inched +0.1% higher (up +7.8% so far in 2019). Long-dated bonds were the worst performers in October as the Bloomberg Barclays Treasury 20+ Year Index fell -0.9% (up +19.1% so far this year).

Equity returns were positive during the month as an improved trade outlook, an additional rate cut, and positive U.S. economic data eased recession concerns. The strength of the consumer continues to propel the U.S. economy forward but lagging business investment spending, a leading economic indicator, could prove troublesome. Political risks also remain as the impeachment inquiry of President Trump gains momentum. Furthermore, despite indications of progress on a trade deal early in the month, it remains to be seen whether the U.S. and China can reach a longer-term agreement.