FOURTH STREET PERFORMANCE PARTNERS

Independent Investment Consultants

November 2019: Market Review

Global equity indexes reached record highs in November as continued trade deal optimism and modest improvements in the global economic outlook lifted sentiment. Additionally, third quarter corporate profits were modestly better than expected. The S&P 500 added +3.6% during the month and has risen +27.6% year-to-date. The Dow Jones Industrial Average increased +4.1% (up +23.1% year-to-date) while the tech-heavy NASDAQ Composite rose +4.6% (up +31.9% so far this year).

In economic news, optimism over "phase one" of the trade deal between the U.S. and China continued, however no further progress was made since its announcement in October. The second reading of third quarter real GDP indicated that growth has moderated to a 2.1% annualized rate, modestly higher than the first estimate of 1.9%. The Federal Reserve held rates steady and indicated that it does not intend to implement further rate cuts this year, barring any material economic slowdowns. The most recent S&P/Case-Shiller National Home Price Index report showed that on a month-over-month basis, home prices were up +0.1% in September, while on a year-over-year basis, prices were +3.2% higher than a year ago. Among commodities, WTI crude oil ended November at $55, modestly higher than October's close price of $54. Gold fell from $1,511 at the end of last month to $1,465 at the end of November.

Within domestic equities, growth stocks' outperformance relative to value continued across all capitalization sizes. Among large cap stocks, the Russell 1000 Growth Index added +4.4% versus a +3.1% return for the Russell 1000 Value Index. In mid cap equities, the Russell Midcap Growth Index gained +5.0% for the month while the Russell Midcap Value Index increased +2.7%. In small cap stocks, the Russell 2000 Growth Index rose +5.9% during the month while the Russell 2000 Value Index added +2.3%.

Most major international indexes also posted gains during the month, bolstered by the de-escalation of trade tensions and better than expected manufacturing data. The MSCI EAFE Index added +1.1% for the month and has gained +18.2% year-to-date while the MSCI Europe Index increased +1.5% during the month (up +19.1% so far this year). The MSCI Pacific Index rose +0.4% during the month, bringing its year-to-date performance to +16.7%. The MSCI Emerging Markets Index declined modestly, returning -0.1% in November, ending the month with a +10.2% year-to-date gain. Emerging market returns were negatively impacted by weakness in Brazil (-4.5%), Mexico (-2.7%), and Korea (-1.5%).

In this risk-on environment, U.S. fixed income markets were mixed. The yield on the 10-Year Treasury closed at 1.78%, an increase from last month's close of 1.69%. The spread between the 10-year and 2-year yields ended the month at 17 bps, unchanged from the end of October. The Bloomberg Barclays U.S. Aggregate Bond Index fell -0.1% for the month (up +8.8% year-to-date). High yield bonds were positive as the Bloomberg Barclays Corporate High Yield Index rose +0.3% for the month, bringing the year-to-date gain to +12.1%. 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 November as the Bloomberg Barclays Treasury 20+ Year Index fell -0.5% (up +18.5% so far this year).

U.S. equity indexes continued to set record highs during the month as an improved trade outlook and the subsiding of recession fears boosted market sentiment. The strength of the consumer continues to propel the U.S. economy forward but weaker business investment spending, a leading economic indicator, could prove troublesome. Political risks also remain as the impeachment inquiry of President Trump presses forward. Furthermore, despite indications of progress on a trade deal, it remains to be seen whether the U.S. and China can reach a longer-term agreement, particularly with the next phase of U.S. tariffs still slated to begin on December 15th.