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August 2015: Market Review

Global equity markets sold off sharply in August, as China's attempt to deal with slowing growth by devaluing its currency sent shockwaves through markets. In its worst month since May 2010, the Dow Jones Industrial Average dropped (6.20%), lowering its year-to-date return to (5.68%). Volatility flared up during the month, as evidenced by the Dow posting the biggest intraday point decline in its history, as well as its largest-ever two-day gain. The S&P 500 Index lost (6.03%) in August and is down (2.88%) year-to-date. The NASDAQ Composite finished the month down (6.86%), moving its return to 0.85% so far in 2015. All three indexes experienced mid-month corrections of at least 10% before recovering some of those losses by the end of the month.

In U.S. economic news, the second reading of second quarter real GDP showed 3.7% annual growth, up from the initial estimate's 2.3% rate. While the Federal Reserve is still expected to raise interest rates this year, the recent turmoil in financial markets may cause the Fed to wait until December's meeting to do so. The most recent S&P/Case-Shiller National Home Price Index report showed that on a month-over-month basis, home prices rose 0.1% in June, while on a year-over-year basis, prices were 4.5% higher than a year ago. Commodities dropped early in August but recovered toward the end of the month, as WTI crude oil ended the month at $49, up from July's closing price of $47. Gold closed August at $1132 per troy ounce, up from $1095 at the end of last month.

Value-style equities outperformed growth-style equities across all capitalizations in August, but all were negative. Among large cap stocks, the Russell 1000 Value Index fell (5.96%) during the month, dropping its 2015 return to (6.12%), while the Russell 1000 Growth Index lost (6.07%), but remains positive for the year, up 0.96%. For small cap stocks, the Russell 2000 Value Index lost (4.91%) and has fallen (6.83%) year-to-date, while the Russell 2000 Growth Index dipped (7.58%), but has added 0.91% this year. The Russell Midcap Index closed the month off (5.28%), decreasing its year-to-date return to (2.33%).

Both developed and emerging international equity markets were down in August, as China enacted the largest currency devaluation in its history in an effort to stem slowing growth, adding to fear that the world's second-largest economy might be faltering. The MSCI EAFE Index ended the month down (7.36%) and has lost (0.21%) in U.S. dollars year-to-date. The MSCI Europe Index fell (7.12%) during the month, giving the index a return of (0.56%) so far in 2015. The MSCI Pacific Index dropped (7.80%), but is up 0.27% year-to-date. Markets in China and Brazil experienced double-digit drops for the second straight month in August, down (11.68%) and (14.17%), respectively. The MSCI Emerging Markets Index lost (9.04%) in August and is down (12.85%) for the year.

In U.S. fixed income markets, the yield on the 10-Year Treasury closed August at 2.14%, down from 2.21% at the end of July. The Barclays U.S. Aggregate Bond Index was down (0.14%) in August, but has gained 0.45% for the year. The Barclays U.S. Treasury Index rose 0.04% during the month and has added 0.91% in 2015. The Barclays Treasury 20+ Year Index gained 0.01%, but has lost (1.70%) year-to-date. The Barclays Corporate High Yield Index closed the month down (1.74%), decreasing its year-to-date gain to 0.15%.

August's volatility and market woes seem to have been driven almost entirely by China. Despite progress in the U.S. economy, the Federal Reserve may not increase rates at its September meeting due to developing global economic issues. While corrections are a normal part of market activity (especially after more than six years of upward-trending markets), it can be difficult to determine whether they are temporary setbacks or signs of more pain to come.