Fourth Street Performance Partners
Independent Investment Consultants

February 2019: Market Review

The rally in global equity prices continued in February as the Fed's more dovish outlook, constructive US-China trade talks, and implementation of economic stimulus measures in China propelled stocks higher. The S&P 500 gained +3.2% during the month and has risen +11.5% year-to-date, pushing the index to its best start to a year since 1991. The Dow Jones Industrial Average rose +4.0% (up +11.6% year-to-date) while the tech-heavy NASDAQ Composite appreciated +3.6% (up +13.7% so far this year).

In U.S. economic news, fourth quarter GDP grew at a 2.6% annualized rate, beating expectations yet slowing from third quarter results. In addition, optimism regarding trade talks between the US and China continued to boost equity prices. The most recent S&P/Case-Shiller National Home Price Index report showed that on a month-over-month basis, home prices were down -0.1% in December, while on a year-over-year basis, prices were +4.7% higher than a year ago. Among commodities, WTI crude oil ended February at $57 a barrel, up modestly from $54 a barrel. Gold closed the month at $1,312 per troy ounce, up from $1,309 at the end of January.

Within domestic equities, growth outperformed value for all capitalization sizes in February. Among large cap stocks, the Russell 1000 Growth Index gained +3.6% whereas the Russell 1000 Value Index appreciated +3.2% for the month. For small cap stocks, the Russell 2000 Growth Index rose +6.5% in the month versus gains of +3.9% for the Russell 2000 Value Index. In mid cap equities, the Russell Midcap Growth Index increased +5.9% for the month whereas the Russell Midcap Value Index added +3.2%.

All major international indexes also posted gains as concerns regarding slowing global economic growth were outweighed by U.S.-China trade deal optimism and Chinese stimulus measures to spur growth. The MSCI EAFE Index gained +2.6% for the month and +9.3% year-to-date while the MSCI Europe Index also rose +3.4% during the month (up +10.2% so far this year). The MSCI Pacific Index added +1.2% during the month and +7.8% so far in 2019. The MSCI Emerging Markets Index returned +0.22% during the month, ending February with a +9.0% year-to-date gain. Emerging market returns were positively impacted by strength in China (+11.1%) and Taiwan (+4.8%) during the month.

U.S. fixed income markets were mixed in February as a more dovish outlook from central banks increased investors' risk appetite. The yield on the 10-Year Treasury closed the month at 2.71%, modestly higher than last month's close of 2.69%. The Bloomberg Barclays U.S. Aggregate Bond Index declined -0.1% for the month (up +1.0% year-to-date) and the Bloomberg Barclays U.S. Treasury Index fell -0.3% (up +0.2% so far in 2019). The Bloomberg Barclays Treasury 20+ Year Index declined -1.3% during the month, ending February down -0.6% year-to-date. The Bloomberg Barclays Corporate High Yield Index was the strongest performer in the risk-on environment, posting a gain of +1.7% for the month and +6.3% so far this year.

Equity indexes climbed higher during the month as the market continues to interpret the new Fed guidance as a more supportive environment for risk assets. Reports of Chinese stimulus are further contributing to increased market optimism. Even with some indication that the U.S. and China plan to resolve trade tensions, it remains to be seen how much common ground the two nations can find. While risk assets have rebounded strongly in January and February, slowing economic growth around the globe will continue to be a headwind. Further direction from the Fed later this year will likely influence the trajectory of risk assets.