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January 2016: Market Review

Global equity markets were negative in January as central banks continued to work to fight slowing growth. The Dow Jones Industrial Average fell (5.39%) in the month, while the S&P 500 Index lost (4.96%). Both indexes experienced 10% corrections in January before rising in the final week of the month. The NASDAQ Composite was down (7.86%).

In U.S. economic news, the first reading of fourth quarter real GDP came in at 0.7% annual growth; however, growth for the year came in at 2.4%, better than the average of 2.1% growth since 2010. Futures markets have lowered expectations of more Federal Reserve interest rate hikes this year due to slower growth and the actions of other central banks. 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 November, while on a year-over-year basis, prices were 5.3% higher than a year ago. Commodities were mostly down in January, as WTI crude oil ended the month at $34, down from $37 at the end of last month. Gold closed January at $1116 per troy ounce, up from December's closing price of $1060.

Growth-style equities and value-style equities were negative across all capitalizations in January, with growth and lower-capitalization stocks performing worse. Among large cap stocks, the Russell 1000 Value Index fell (5.17%) during the month, while the Russell 1000 Growth Index lost (5.58%). In small cap stocks, the Russell 2000 Value Index dropped (6.72%), while the Russell 2000 Growth Index lost (10.83%). The Russell Midcap Index closed the month down (6.55%).

International equity markets struggled in January, even as central banks around the world remained open to additional policy action to combat weak growth and inflation. The MSCI EAFE Index ended the month down (7.23%). European Central Bank President Mario Draghi indicated that more stimulus could be coming at the ECB's next meeting, set for March. The MSCI Europe Index dropped (6.59%) during January. Although the Bank of Japan moved its short-term interest rate below zero for the first time ever, the MSCI Pacific Index lost (8.41%) to start the year. The MSCI Emerging Markets Index fell (6.49%). China was particularly weak, down (12.72%) in January.

In U.S. fixed income markets, the yield on the 10-Year Treasury closed January at 1.93%, down from 2.27% at the end of December and the lowest yield since last April. The Barclays U.S. Aggregate Bond Index was up 1.38% in January. The Barclays U.S. Treasury Index added 2.13% during the month. Longer-term bonds did well in January; the Barclays Treasury 20+ Year Index rose 5.23%. The Barclays Corporate High Yield Index closed the month off (1.61%).

Central banks outside the U.S. continue to enact accommodative monetary policies, and even the Federal Reserve indicated that it will be cautious with additional rate increases. However, the efficacy of these moves will be scrutinized by investors as every additional policy change may offer diminishing returns. Adding in a presidential race that will begin heating up in the coming months to these factors ensures markets will continue to be volatile.