January 2018: Market Review

Global equity markets extended 2017's strong performance into the first month of 2018, even as the U.S. government experienced a brief shutdown after Congress was unable to agree on a funding bill. The Dow Jones Industrial Average gained 5.88% in January, while the S&P 500 Index returned 5.73%, and the NASDAQ Composite Index was up 7.40%.

In U.S. economic news, Congress ended a three-day government shutdown by passing a short-term spending bill that funds the government through February 8. Janet Yellen participated in her last policy meeting as Federal Reserve Chair during the month; current Fed governor Jerome Powell will be sworn in as her replacement in early February. Futures markets are pricing in an 83% probability of a rate increase at the Fed's March meeting. The most recent S&P/Case-Shiller National Home Price Index report showed that on a month-over-month basis, home prices were up 0.24% in November, while on a year-over-year basis, prices were 6.21% higher than a year ago. Among commodities, WTI crude oil ended January at $65 a barrel, up from December's closing price of $60. Gold closed the month at $1,339 per troy ounce, up from $1,306 at the end of 2017.

Growth-style equities' outperformance of value stocks in 2017 continued at the start of 2018, as did large cap equities' outperformance of small cap equities. Among large cap stocks, the Russell 1000 Growth Index rose 7.08% in January, while the Russell 1000 Value Index added 3.87%. For small cap stocks, the Russell 2000 Growth Index gained 3.90% for the month, while the Russell 2000 Value Index rose 1.23%. The Russell Midcap Index added 3.76% in January.

International equities also had strong gains to begin 2018. The MSCI EAFE Index was up 5.02%. The MSCI Europe Index rose 5.40% in January, while the MSCI Pacific Index added 4.34%. After leading all major equity benchmarks in 2017, the MSCI Emerging Markets Index opened 2018 with a strong gain of 8.33%. Major EM countries like Brazil (+16.84%), Russia (+12.57%), and China (+12.49%) all had double-digit gains during the month.

U.S. fixed income markets were mostly negative in January, as bond investors faced the prospect of increased economic growth and inflation, driven by the recent corporate tax rate cut. The yield on the 10-Year Treasury closed January at 2.72%, up from December's close of 2.41%. The U.S. Treasury announced that the size of its debt auctions will be increasing in the coming months, possibly pushing down prices and increasing yields. The Bloomberg Barclays U.S. Aggregate Bond Index fell (1.15%), its largest monthly drop since late 2016. The Bloomberg Barclays U.S. Treasury Index lost (1.36%) in January. The Bloomberg Barclays Treasury 20+ Year Index was down (3.28%) during the month. The Bloomberg Barclays Corporate High Yield Index rose 0.60%.

After hitting record highs in 2017, U.S. equity markets opened 2018 in a similar fashion. Market valuations, the effects of the Trump administration's newly-implemented tax changes, and the possibility of more contentious budget debates in Washington could all be factors in how markets perform in the near future.