FOURTH STREET PERFORMANCE PARTNERS

Independent Investment Consultants

January 2019: Market Review

Global equity prices rebounded sharply in January after a dismal December, bolstered by a more dovish Fed, better-than-expected corporate earnings, and an improved trade outlook with China. The S&P 500 gained +8.0%, recovering most of December's declines and posting the best January results since 1987. The Dow Jones Industrial Average rose +7.3%. The tech-heavy NASDAQ Composite appreciated +9.8% during the month as most big tech companies delivered strong earnings results.

In U.S. economic news, optimism regarding trade talks between the US and China boosted equity prices. The US experienced a 35-day government shutdown, the longest in history. Despite the shutdown, the January jobs report surged past expectations. As expected, the Fed held the target rate range constant during the January meeting (2.25 - 2.50%) and indicated that the US central bank would be patient with future rate hikes. 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 November, while on a year-over-year basis, prices were +4.7% higher than a year ago. Among commodities, WTI crude oil ended January at $54 a barrel, recovering from December's closing price of $45. Despite the January rally, crude oil remains in bear market territory, with WTI down about 30% from its 52-week high in October. Gold closed the month at $1,309 per troy ounce, up from $1,278 at the end of December.

Within domestic equities, growth outperformed value for all capitalization sizes in January. Among large cap stocks, the Russell 1000 Growth Index gained +8.9% whereas the Russell 1000 Value Index appreciated +7.8% for the month. For small cap stocks, the Russell 2000 Growth Index rose +11.6% in January versus gains of +10.9% for the Russell 2000 Value Index. In mid cap equities, the Russell Midcap Growth Index increased +11.5% for the month whereas the Russell Midcap Value Index added +10.3%.

All major international indexes also posted gains as concerns regarding slowing global economic growth were outweighed by the Fed's more dovish stance and easing U.S.-China trade tensions. The MSCI EAFE Index gained +6.6% for the month while the MSCI Europe Index also rose +6.6%. The MSCI Pacific Index added +6.5% during the month. Amongst international equities, the MSCI Emerging Markets Index was the best relative performer during the month, gaining +8.8%. Emerging market returns were positively impacted by strength in China (+11.6%), Brazil (+17.7%), and Turkey (+18.0%).

U.S. fixed income markets were positive in January as credit spreads narrowed considerably. The yield on the 10-Year Treasury closed the month at 2.69%, modestly higher than last month's close of 2.68%. The Bloomberg Barclays U.S. Aggregate Bond Index added +1.1% for the month while the Bloomberg Barclays U.S. Treasury Index gained +0.5%. The Bloomberg Barclays Treasury 20+ Year Index appreciated +0.7% during the month. The Bloomberg Barclays Corporate High Yield Index rebounded from fourth quarter declines, posting a gain of +4.5% for the month.

After the significant selloff in the fourth quarter, the market has since interpreted the new Fed guidance as a more supportive environment for risk assets. Strong earnings results have also improved market sentiment; however, higher input costs may become problematic. Even with some indication that the U.S. and China plan to resolve trade tensions, it remains to be seen whether the two nations can find common ground. While risk assets took a respite in January from the fourth quarter selloff, 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.