Fourth Street Performance Partners
Independent Investment Consultants

July 2015: Market Review

Global equity markets were mostly positive in July, even as some emerging market countries struggled with double-digit losses. The Dow Jones Industrial Average gained 0.52% during the month, raising its year-to-date return to 0.55%. The S&P 500 Index added 2.10% in July and is up 3.35% year-to-date. The NASDAQ Composite finished the month up 2.84%, moving its gain to 8.28% so far in 2015.

In U.S. economic news, the initial reading of second quarter real GDP showed 2.3% annual growth. First quarter GDP was also revised up to 0.6% due to an additional seasonality adjustment after an earlier reading of a 0.2% contraction. The Federal Reserve once again kept interest rates at their current level during its July meeting. However, the Fed could begin raising rates at its September meeting, which would be the first increase since 2006. The most recent S&P/Case-Shiller National Home Price Index report showed that on a month-over-month basis, home prices fell (0.2%) in May, while on a year-over-year basis, prices were 4.9% higher than a year ago. Commodities slumped in July as WTI crude oil ended the month at $47, down from June's closing price of $59. Gold closed July at $1095 per troy ounce, down from $1172 at the end of last month.

Growth-style equities continued to outpace value-style equities across all capitalizations in July. Among large cap stocks, the Russell 1000 Growth Index rose 3.39% during the month, lifting its 2015 return to 7.49%, while the Russell 1000 Value Index grew 0.44%, but is negative for the year, down (0.18%). For small cap stocks, the Russell 2000 Growth Index gained 0.41%, raising its year-to-date return to 9.18%, while the Russell 2000 Value Index lost (2.76%) and has dropped (2.02%) this year. The Russell Midcap Index closed the month up 0.74%, increasing its year-to-date return to 3.11%.

International equity markets were mixed in July, as developed markets gained, while emerging markets struggled. The MSCI EAFE Index ended the month up 2.08% and has added 7.72% in U.S. dollars year-to-date. The MSCI Europe Index rose 3.12% for the month, giving the index a return of 7.06% so far in 2015. The MSCI Pacific Index had a slight loss of (0.08%), but is up 8.76% year-to-date. Markets in China and Brazil both experienced steep drops during July, down (10.77%) and (12.21%), respectively. After Greek citizens voted against further austerity measures early in the month, Greek Parliament voted to reverse the decision and negotiate a new €86B bailout in exchange for additional economic restructuring. The MSCI Emerging Markets Index lost (6.93%) in July and is down (4.19%) for the year.

In U.S. fixed income markets, the yield on the 10-Year Treasury closed July at 2.21%, down from 2.34% at the end of June. The Barclays U.S. Aggregate Bond Index had its first positive month since March, up 0.70% in July and now 0.59% for the year. The Barclays U.S. Treasury Index rose 0.83% during the month and has added 0.87% in 2015. The Barclays Treasury 20+ Year Index gained 3.73%, but has lost (1.72%) year-to-date. The Barclays Corporate High Yield Index closed the month down (0.58%), decreasing its year-to-date gain to 1.93%.

Expectations that the Federal Reserve will see enough progress in the U.S. economy to raise rates in the coming months are now running high. While uncertainty in Greece has lessened after negotiations began for a new bailout package, a broader economic slowdown in China and other emerging markets, combined with a stronger U.S. dollar, may prove more troublesome for investors to overcome.