FOURTH STREET PERFORMANCE PARTNERS

Independent Investment Consultants

June 2017: Market Review

Global equity markets were for the most part positive in June, as a mid-month dip in oil and a rotation away from tech stocks did not dampen investors' enthusiasm for the current market environment. The Dow gained 1.74% in June and is now up 9.35% year-to-date. The S&P 500 returned +0.62% and has added 9.34% thus far in 2017. The NASDAQ Composite was down (0.94%) in June bringing its year-to-date return to +14.07%.

In U.S. economic news, the Federal Reserve raised interest rates for the second time in 2017, despite conflicting signals from some key measures. While unemployment is at a better-than-expected level (4.3%), inflation remains below its 2% target. The Fed also laid out a plan to reduce its $4.5 trillion balance sheet of Treasury and mortgage securities over time. The most recent S&P/Case-Shiller National Home Price Index report showed that on a month-over-month basis, home prices were up 0.95% in April, while on a year-over-year basis, prices were 5.50% higher than a year ago. Among commodities, WTI crude oil ended June at $46 a barrel, down from May's closing price of $48. Gold closed the month at $1,241 per troy ounce, down from $1,272 at the end of May.

Value-style equities outperformed their growth-style counterparts across all capitalizations in June, marking the first month that has occurred this year. Among large cap stocks, the Russell 1000 Value Index added 1.63% during the month and has risen 4.66% year-to-date, while the Russell 1000 Growth Index fell (0.26%), but has gained an impressive 13.99% year-to-date. For small cap stocks, the Russell 2000 Value Index added 3.50%, and is now up 0.54% so far in 2017, while the Russell 2000 Growth Index gained 3.44% in June and has returned +9.97% year-to-date. The Russell Midcap Index closed the month up 0.99% and has gained 7.99% year-to-date.

International equity was mixed for the month as developed markets struggled while emerging markets had a solid month. The MSCI EAFE Index was down (0.18%) for the month, but has returned a healthy +13.81% thus far in 2017, outperforming U.S. markets. European Central Bank president, Mario Draghi, hinted that a strengthening economy in Europe may lead to monetary tightening sooner rather than later. The MSCI Europe Index fell (1.09%), but is up 15.36% year-to-date. The MSCI Pacific Index added 1.39%, lifting its gain so far this year to 10.73%. The MSCI Emerging Markets Index gained 1.01% in June and is up 18.43% year-to-date, which leads all major equity benchmarks in 2017. On June 20th, MSCI decided to include China's A-share market into its emerging markets index. Stocks from China's A-share market will gradually be included in to the index starting in June of 2018.

U.S. fixed income markets varied in June. The yield on the 10-Year Treasury closed the month at 2.30%, up from May's close of 2.20%, despite falling to a 2017 low of 2.15% mid-month. The Bloomberg Barclays U.S. Aggregate Bond Index fell (0.10%), but is up 2.27% year-to-date. The Bloomberg Barclays U.S. Treasury Index returned (0.16%) in June, but has gained 1.87% for the year. The Bloomberg Barclays Treasury 20+ Year Index rose 0.49% and has added 5.66% in 2017. The Bloomberg Barclays Corporate High Yield Index was up 0.14% for the month and has gained 4.93% year-to-date.

Equity markets continued to move forward in June even as the Trump administration seemingly hit some rough patches and domestic equity valuations continue to move upward. As volatility has hit historic lows, investors will be watching closely to see if the Trump administration can pass any of their pro-business initiatives and promised changes to healthcare, while facing a continuing investigation into Russia's involvement in the recent U.S. election.