Fourth Street Performance Partners
Independent Investment Consultants

March 2019: Market Review

Global equity prices continued to rise in March as the Fed continued its “wait-and-see” narrative. Additionally, the US-China trade sentiment remained favorable, and Chinese economic stimulus was a tailwind in March. The S&P 500 gained +1.94% during the month and has risen +13.64% year-to-date, with all 11 economic sectors posting gains year-to-date. The Dow Jones Industrial Average rose +0.17% (up +11.81% year-to-date) while the tech-heavy NASDAQ Composite appreciated +2.7% (up +16.81% so far this year).

In U.S. economic news, fourth quarter real GDP was revised downwards to a 2.2% annualized rate, compared to the initial estimate of 2.6% last month. The most recent S&P/Case-Shiller National Home Price Index report showed that on a month-over-month basis, home prices were down -0.2% in January, while on a year-over-year basis, prices were +4.3% higher than a year ago. Among commodities, WTI crude oil ended March at $60 a barrel, up modestly from $57 a barrel. Gold closed the month at $1,293 per troy ounce, down from $1,312 at the end of February.

Within domestic equities, growth outperformed value for all capitalization sizes in March. Among large cap stocks, the Russell 1000 Growth Index gained +2.9% whereas the Russell 1000 Value Index appreciated +0.6% for the month. In mid cap equities, the Russell Midcap Growth Index increased +1.4% for the month whereas the Russell Midcap Value Index added +0.5%. Small cap stocks were the only major equity asset class to post losses in March. The Russell 2000 Growth Index fell -1.4% in the month versus the loss of -2.9% for the Russell 2000 Value Index.

All major international indexes also posted gains despite concerns regarding slowing global economic growth. Solid PMI numbers out of China (54.8) were a boost in March and continued to indicate an expansionary tone. The MSCI EAFE Index gained +0.6% for the month and +10.0% year-to-date while the MSCI Europe Index also rose +0.61% during the month (up +10.8% so far this year). The MSCI Pacific Index added +0.7% during the month and +8.5% so far in 2019. The MSCI Emerging Markets Index returned +0.8% during the month, ending March with a +9.9% year-to-date gain. Emerging market returns were positively impacted by strength in China (+4.2%) and India (+9.1%) during the month.

U.S. fixed income markets were all positive in March as interest rates fell sharply. The yield on the 10-Year Treasury closed the month at 2.42%, lower than last month’s close of 2.71%. Importantly, the 10-Year Treasury yield fell below the yield of the 3-Month Treasury, signaling an inverted yield curve. The Bloomberg Barclays U.S. Aggregate Bond Index rose +1.9% for the month (up +2.9% year-to-date) and the Bloomberg Barclays U.S. Treasury Index rose +1.9% (up +2.1% so far in 2019). The Bloomberg Barclays Treasury 20+ Year Index was the strongest performer rising +5.4% during the month, ending March up +4.7% year-to-date. The Bloomberg Barclays Corporate High Yield Index posted a gain of +0.9% for the month and +7.3% so far this year.

Equity indexes climbed higher during the month as the market continues to interpret the new Fed guidance as a more supportive environment given the backdrop of slowing global growth concerns. Reports of Chinese stimulus are further contributing to increased market optimism. Even with some indication that the U.S. and China plan to resolve trade tensions, it remains to be seen how they will handle the more structural issues. The short-lived 5-day yield curve inversion, referenced earlier, is of importance given this data point is penchant for forecasting recessionary environments. However, it should be noted that the predictive power of this indicator is stronger when the inversion remains for several months not days. In addition, it is debatable on how near zero/negative rates abroad could be distorting the U.S. yield curve.