FOURTH STREET
PERFORMANCE PARTNERS
Independent Investment Consultants

November 2015: Market Review

Global equity markets were mixed in November as central banks in the U.S. and Europe indicated that diverging strategies for the path of interest rates in their respective regions are likely. The Dow Jones Industrial Average gained 0.71%, lifting its year-to-date return to 1.76%. The S&P 500 Index added 0.30% for the month and has gained 3.01% for the year. The NASDAQ Composite was up 1.09%, moving its year-to-date return to 7.87%.

In U.S. economic news, the second reading of third quarter real GDP came in at 2.1% annual growth, revised up from the previous estimate of 1.5% growth. Even in the face of sub-target inflation, futures markets are pricing in a 77.5% probability that the Federal Reserve will raise interest rates at its December meeting. Post-Thanksgiving shopping numbers are expected to rise over last year's. Despite stronger consumer spending, capital expenditures among businesses are slowing, which may damage future GDP growth. The most recent S&P/Case-Shiller National Home Price Index report showed that on a month-over-month basis, home prices rose 0.2% in September, while on a year-over-year basis, prices were 4.9% higher than a year ago. Commodities were down in November, as WTI crude oil ended the month at $42, down from $47 at the end of last month. Gold closed November at $1066 per troy ounce, down from October's closing price of $1142.

Growth-style equities and value-style equities were positive across all capitalizations in November. Among large cap stocks, the Russell 1000 Value Index added 0.38% during the month, but remains negative for the calendar year, down (1.71%), while the Russell 1000 Growth Index rose 0.28% and is up 7.24% year-to-date. In small cap stocks, the Russell 2000 Value Index gained 2.84%, but is down (2.32%) this year, while the Russell 2000 Growth Index grew 3.66% and has added 3.56% in 2015. The Russell Midcap Index closed the month up 0.25%, improving its year-to-date return to 0.25%.

International equity markets were down in November, as the European Central Bank indicated that it may move interest rates deeper into negative territory to encourage an increase in loan activity in EMU countries. The MSCI EAFE Index ended the month down (1.56%), but has gained 0.54% in U.S. dollars year-to-date. The MSCI Europe Index lost (1.83%) during November, giving the index a return of (0.28%) so far in 2015. The MSCI Pacific Index fell (1.03%), but is up 2.02% for the year. China's currency, the yuan, was added to the IMF's basket of reserve currencies during the month, signaling the country's status as a global economic power. However, equities in China were down (3.37%) in November. The MSCI Emerging Markets Index dipped (3.90%) and is now down (12.98%) year-to-date.

In U.S. fixed income markets, the yield on the 10-Year Treasury closed November at 2.22%, up from 2.15% at the end of October. The Barclays U.S. Aggregate Bond Index was down (0.26%) in November, but has gained 0.88% for the year. The Barclays U.S. Treasury Index lost (0.41%) during the month, but has increased 1.01% in 2015. The Barclays Treasury 20+ Year Index dipped (0.87%) and is down (1.60%) year-to-date. The Barclays Corporate High Yield Index closed the month off (2.22%), moving it back into the red for the year, down (2.00%).

While the Federal Reserve has not guaranteed it will raise interest rates at its December meeting, investors are now expecting to see the Fed's first rate increase in nine years before 2015 comes to a close. How the economy and markets will react is the question, especially since the Fed's previous rate hikes began when GDP growth averaged over 4%, much stronger than the most recent quarter's 2.1% growth.