FOURTH STREET PERFORMANCE PARTNERS
Independent Investment Consultants

November 2018: Market Review

November was a tumultuous month for equities, but a rally in the last week of the month led major equity indexes to end in positive territory. Mid-month, the S&P 500 erased its gain for the year in response to a rising risk of recession and widening credit spreads but surged during the last week of trading as the Fed softened its interest rate policy stance and markets became optimistic about easing trade tensions. The S&P 500 Index rebounded from mid-month lows, posting gains of +2.0% in November and +5.1% year to date. The Dow Jones Industrial Average added +2.1% and is up +5.6% year to date. The tech-heavy NASDAQ Composite increased +0.5% during the month (+7.2% year-to-date) as big tech was hurt by fears of slower growth and increased regulation.

In U.S. economic news, the second reading of third quarter real GDP growth came in at 3.5%, unrevised from October's first estimate and slower than second quarter's 4.2% growth. The most recent S&P/Case-Shiller National Home Price Index report showed that on a month-over-month basis, home prices were up +0.1% in September, while on a year-over-year basis, prices were +5.5% higher than a year ago. Among commodities, WTI crude oil plunged -21%, ending November at $51 a barrel, down from October's closing price of $65 in response to oversupply, hampered demand, and geopolitical tensions. Gold closed the month at $1,176 per troy ounce, down from $1,212 at the end of October.

Growth and value stocks performed relatively in line among mid and small capitalizations, but large cap value stocks surged past their growth counterparts in November. Despite the value rally, growth equities maintain their year-to-date outperformance by a wide margin. Among large cap stocks, the Russell 1000 Growth Index gained +1.1% in November, returning +7.8% year-to-date. The Russell 1000 Value Index rose +3.0% for the month, which brought its year-to-date return to +1.5%. For small cap stocks, the Russell 2000 Growth Index increased +1.6% in November and is up +2.7% so far this year. The Russell 2000 Value Index added +1.6% but has declined -0.9% so far in 2018. In mid cap equities, the Russell Midcap Growth Index rose +2.5% in November, increasing +4.8% year to date. The Russell Midcap Value Index gained +2.4% for the month but has fallen -2.0% so far this year.

International equity indexes posted mixed results in November and continued to underperform U.S. equities. The MSCI EAFE Index fell -0.1% for the month, resulting in a year-to-date loss of -9.4%. The MSCI Europe Index dropped -0.9% in November and has posted a -12.5% return so far this year. The MSCI Pacific Index added +1.2% during the month but has fallen -7.3% so far in 2018. The MSCI Emerging Markets Index rebounded in November, gaining +4.1% as a weakening U.S. dollar outlook and optimism regarding trade tensions served as tailwinds. Returns were positively impacted by strength in Turkey (+13.0%), India (+11.2%), and China (+7.3%). Despite positive performance in November, the MSCI Emerging Markets Index is down -12.2% so far this year.

Major fixed income indexes posted positive results in November as the Fed now sees interest rates "just below" neutral. The yield on the 10-Year Treasury closed November at 3.01%, down from October's close of 3.16%. The Bloomberg Barclays U.S. Aggregate Bond Index added +0.6% for the month, curbing year-to-date losses to -1.8%. The Bloomberg Barclays U.S. Treasury Index gained +0.9% in November but is down -1.3% so far this year. The Bloomberg Barclays Treasury 20+ Year Index appreciated +1.9% during the month, leaving it with a return of -7.2% so far in 2018. The Bloomberg Barclays Corporate High Yield Index lost -0.9% in November but has gained +0.1% year to date, the only fixed income index with positive returns over that period.

Despite a rocky start to the month, stocks recovered initial losses and ended the month in positive territory. Even with some indication at the end of November that the U.S. and China plan to de-escalate trade tensions, it remains to be seen whether the two nations can find common ground. Corporate profits remain strong, but higher input costs may be problematic. Ongoing trade tensions, high equity valuations, and a strong U.S. dollar could continue to be headwinds for global equity markets.