Fourth Street Performance Partners
Independent Investment Consultants

October 2015: Market Review

Global equity markets rose sharply in October after a difficult August and September, as the Federal Reserve held interest rates steady and China took action to stimulate slowing growth. In its best month since October 2011, the Dow Jones Industrial Average gained 8.59%, lifting its year-to-date return back to positive territory, up 1.04%. The S&P 500 Index was similarly strong, up 8.44% in October and 2.70% for the year. The NASDAQ Composite added 9.38% for the month, moving its year-to-date return to 6.71%.

In U.S. economic news, the Federal Reserve chose to delay raising interest rates yet again at its October meeting. While the Fed's post-meeting statement signaled that less emphasis would be placed on global economic growth struggles at its December meeting, the key objectives of 2% inflation and full employment in the U.S. still may give Fed officials enough concern to postpone a rate increase until 2016. The first reading of third quarter real GDP came in at 1.5% annual growth, down from the second quarter's 3.9% rate. The most recent S&P/Case-Shiller National Home Price Index report showed that on a month-over-month basis, home prices rose 0.3% in August, while on a year-over-year basis, prices were 4.7% higher than a year ago. Among commodities, WTI crude oil ended the month at $47, up from $45 at the end of last month. Gold closed October at $1142 per troy ounce, up from September's closing price of $1115.

Growth-style equities outperformed value-style equities across all capitalizations in October, as has been the case for most of 2015. Among large cap stocks, the Russell 1000 Growth Index added 8.61% during the month, raising its 2015 return to 6.94%, while the Russell 1000 Value Index rose 7.55%, but remains negative for the calendar year, down (2.09%). In small cap stocks, the Russell 2000 Growth Index gained 5.67%, but is down (0.10%) this year, while the Russell 2000 Value Index grew 5.60%, but has fallen (5.02%) year-to-date. The Russell Midcap Index closed the month up 6.20%, improving its year-to-date return to (0.01%).

Both developed and emerging international equity markets rose in October, as China cut interest rates to encourage lending and European Central Bank President Mario Draghi indicated that more stimulus could be coming soon to aid the economies of EMU countries. The MSCI EAFE Index ended the month up 7.82% and has gained 2.13% in U.S. dollars year-to-date. The MSCI Europe Index added 7.16% during October, giving the index a return of 1.58% so far in 2015. The MSCI Pacific Index rose 9.13% after five straight months of declines, and is now up 3.08% for the year. The MSCI Emerging Markets Index rose 7.13% in October, but has struggled for most of 2015 and is down (9.45%) year-to-date.

In U.S. fixed income markets, the yield on the 10-Year Treasury closed October at 2.15%, up from 2.06% at the end of September. The Barclays U.S. Aggregate Bond Index was up 0.02% in October and has gained 1.14% for the year. The Barclays U.S. Treasury Index lost (0.37%) during the month, but has increased 1.42% in 2015. The Barclays Treasury 20+ Year Index dipped (0.52%) and is down (0.73%) year-to-date. The Barclays Corporate High Yield Index closed the month up 2.75%, moving it back into the black for the year, up 0.23%.

With elevated equity market valuations, average third quarter corporate earnings, and unclear forward guidance, markets seem largely to have been driven by central banks' accommodative policies in October. Only one Federal Reserve policy meeting remains in 2015, so it is difficult to say if the Fed will see enough positive momentum in its indicators to take action this year. Perhaps more importantly, investors are considering how markets will react when rates do begin to rise.