Fourth Street Performance Partners

Independent Investment Consultants

September 2017: Market Review

Global equities were mostly positive in September as the Trump administration announced its initial plans for tax reform while the Federal Reserve expressed confidence in the U.S. economy by outlining its balance sheet reduction plan and signaling further interest rate increases. The Dow Jones Industrial Average gained 2.16% in September and is now up 15.45% year-to-date. The S&P 500 Index returned 2.06% and has added 14.24% thus far in 2017. The NASDAQ Composite Index was up 1.05% in September, bringing its year-to-date return to 20.67%.

In U.S. economic news, the Trump administration released a broad framework for an overhaul of the U.S. tax code, although many details are yet to be determined. The Federal Reserve officially announced that it will begin to unwind its $4.5 trillion balance sheet, starting in October with a $10 billion monthly reduction that will gradually increase over time. The Fed also anticipates four rate increases by the end of 2018. The most recent S&P/Case-Shiller National Home Price Index report showed that on a month-over-month basis, home prices were up 0.73% in July, while on a year-over-year basis, prices were 5.94% higher than a year ago. Among commodities, WTI crude oil surged 10% and ended September at $52 a barrel, up from August's closing price of $47. Gold closed the month at $1,282 per troy ounce, down from $1,316 at the end of August.

Value-style equities reversed a strong recent trend and outperformed growth stocks in September. Among large cap stocks, the Russell 1000 Value Index added 2.96% during the month and has risen 7.92% year-to-date, while the Russell 1000 Growth Index gained 1.30% and is up 20.72% year-to-date. For small cap stocks, the Russell 2000 Value Index rose 7.08%, the index's best return since November 2016, and is now up 5.68% in 2017, while the Russell 2000 Growth Index added 5.45% in September and has returned 16.81% year-to-date. The Russell Midcap Index gained 2.77% for the month and has returned 11.74% year-to-date.

International equities were mixed in September as developed markets rose while emerging markets posted negative returns. The MSCI EAFE Index was up 2.49% for the month and has returned 19.96% thus far in 2017. European Central Bank President Mario Draghi stated that the central bank would decide the future of its asset purchases at its October meeting. The MSCI Europe Index rose 3.30% and is up 22.79% year-to-date. The MSCI Pacific Index added 0.99%, lifting its gain so far this year to 15.41%. The MSCI Emerging Markets Index dipped (0.40%) in September, its first negative month in 2017, but is up 27.78% year-to-date, which leads all major equity benchmarks in 2017. Positive performance from major EM countries like China (+1.04%) and Brazil (+4.23%) was outweighed by negative returns in September in Greece (-14.00%), India (-3.69%), and South Africa (-6.47%).

U.S. fixed income markets struggled in September as a rebound in inflation and the possibility of tax cuts caused investors to send bond yields higher. The yield on the 10-Year Treasury closed September at 2.33%, up from a low of 2.06% during the month and August's close of 2.19%. The Bloomberg Barclays U.S. Aggregate Bond Index dropped (0.48%), but is up 3.14% year-to-date. The Bloomberg Barclays U.S. Treasury Index lost (0.86%) in September, but has gained 2.26% for the year. The Bloomberg Barclays Treasury 20+ Year Index fell (2.22%) in September, but is up 6.26% in 2017. The Bloomberg Barclays Corporate High Yield Index added 0.90% for the month and has gained 7.00% year-to-date.

The promise of tax reform coupled with confidence from the Federal Reserve sent equity markets to new highs in September. However, investors will be waiting for more details on the Trump administration's tax plan and will be watching how markets react to the Fed's initial asset reductions in October.