FOURTH STREET PERFORMANCE PARTNERS
Independent Investment Consultants

April 2023: Market Review

Global markets stabilized in April as investors shifted their focus from bank failures and systemic risk to corporate earnings and economic growth. The initial estimate of U.S. real GDP growth slowed to an annualized rate of 1.1% in the first quarter, weighed down by a decline in inventory accumulation and slowing fixed investment. Additionally, mortgage applications remained weak and housing starts declined month-to-month. The Federal Reserve is likely to raise the Fed Funds rate by 25 basis points in the May meeting, bringing short term rates to their highest levels in 16 years. However, the March CPI measure slowed to +5.0% year-over-year which was an encouraging sign that inflation may be headed lower and interest rates can plateau near current levels. The Dow Jones Industrial Average rose +2.6% in April, while the S&P 500 Index increased +1.6%. Technology stocks were mostly flat, despite stellar first quarter earnings reports from some of the mega-cap technology bellwether companies. The tech-heavy NASDAQ Composite increased a modest +0.1% during the month.

In domestic equity markets, large cap equities outperformed their smaller capitalization peers. Value-style equities outperformed growth, except in small capitalization companies. The Russell 1000 Value Index rose +1.5% for the month versus the Russell 1000 Growth Index return of +1.0%. The Russell Mid Cap Value Index was flat while the Russell Midcap Growth Index fell -1.5%. The Russell 2000 Growth Index declined -1.2%, whereas the Russell 2000 Value Index fell -2.5%. The continued stock price decline of small-cap banks contributed to the underperformance of the Russell 2000 Value index, which has a large exposure to the banking sector. Gold has been strong so far this year ending the month at $1,990 per ounce (+9.4% YTD). WTI crude oil rose slightly (+1.1%), ending April at $77 per barrel.

Developed international equities outperformed U.S. equities again this month, continuing a trend started last December. The MSCI EAFE Index returned +2.8% for the month, while the MSCI ACWI ex USA Index (which included emerging markets) was up +1.7%. The United Kingdom (+5.3%) performed well as business confidence rose to its highest level in the past year. Emerging markets fell -1.1% in April after economic data from China (-5.2%) showed mixed results from their post-Covid reopening. Other Asian markets felt the impact of the soft Chinese data, as Thailand (-3.8%) and Taiwan (-4.3%) contributed to the decline in emerging markets this month.

U.S. fixed income markets posted gains this month, as longer duration yields moderately declined as investors expect the Fed to pause this tightening cycle after the May meeting. Despite rhetoric from the Fed stating that rate cuts are not currently being considered, the market has priced in two rate cuts late this year. The Bloomberg Aggregate Bond Index increased +0.6% during the month while the Bloomberg US Corporate High Yield Index rose +1.0%. The inverted spread between the 2-year and 10-year ended the month modestly wider at -0.60%. The spread between the 3-month and the 10-year U.S. Treasury notes widened to -1.66%.

Mixed economic data, combined with slowing inflation, led investors to believe that the Federal Reserve’s rate tightening cycle may soon come to an end. Even with a potential Fed pause, the negative economic impact of rate hikes from the previous year has begun to be felt across many sectors, especially in smaller, more debt-dependent companies. Additionally, manufacturers have been pressured by a change in consumer spending, as the most recent GDP release showed a growing divide between goods (less) and services (more) spending. Despite these ongoing risks, market volatility dropped in April as investors shifted their concerns away from central bank tightening cycles and were relieved as U.S. regional bank stress abated. The market’s moderating volatiliy may be short lived as signs of stagflation have begun to emerge, coupled with political uncertainty surrounding the debt ceiling deadline, which is now expected in early June.

See footnotes on the following page.

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