FOURTH STREET PERFORMANCE PARTNERS
Independent Investment Consultants

July 2023: Market Review

Global equity markets experienced positive returns in July, despite central bank policymakers' continued efforts to tighten financial conditions. Real GDP growth for the second quarter was positive as the U.S. economy expanded at an annualized pace of +2.4%, which was above the previous quarter's growth rate and consensus expectations. The positive GDP report fueled investors' appetite to take on additional risk. The S&P 500 Index finished the month of July up +3.2% (YTD +20.7%), the NASDAQ Composite Index climbed +4.1% (YTD +37.7%), and the Dow Jones Industrial Average gained +3.4% (YTD +8.6%). The CPI measure of headline inflation declined to +3.0% year-over-year in June, as inflation continues to recede from the 9% level last summer. The unemployment rate slightly decreased to 3.6% in June, down from 3.7% in May. At the conclusion of their July meeting, the Federal Reserve decided to raise the federal funds rate by 25 basis points, reaching a target range of 5.25-5.50%. While recognizing the encouraging recent progress on inflation and labor markets, Chairman Powell cautioned that the trend must be confirmed through sustained and widespread evidence of cooling prices and weakening wage growth.

July returns within domestic equities displayed a more broad-based rally with the S&P 500 equal-weighted index gaining +3.5% and outperforming the cap-weighted index by 0.3%. Additionally, in another market shift from the first half of the year, smaller capitalization stocks outpaced their larger capitalization peers as the Russell 2000 Index (+6.1%) outperformed the S&P 500 Index (+3.2%). Value-style equities outperformed growth across all capitalization sizes. The Russell 1000 Value Index appreciated +3.5% for the month while the Russell 1000 Growth Index returned +3.4%. The Russell MidCap Value Index rose +4.3% versus a gain of +3.0% from the Russell MidCap Growth Index. The Russell 2000 Value Index approximately gained +7.6% and significantly outpaced the Russell 2000 Growth Index return of +4.7%. WTI crude oil ended the month at $82 per barrel, an increase of +19% from last month's close of $69.

Developed international equities delivered comparable results to their U.S. counterparts in July. The MSCI EAFE Index increased +3.2% while the MSCI ACWI ex USA Index rose +4.1%. The MSCI Emerging Markets Index gained +6.2%, outperforming all major indices globally. China rose +11.2% for the month due to positive GDP growth of +6.5% in the second quarter. Japan (+3.0%) posted positive gains in July as the Bank of Japan announced a decision to continue their policy of yield curve control, despite rising inflation levels, but with a modestly wider range. Japanese 10-year bond yields rose to nine-year highs on this policy change.

U.S. fixed-income markets were mixed in July, as economic data surprised investors to the upside and sent yields modestly higher. The Bloomberg U.S. Aggregate Bond Index fell -0.1% during the month while the Bloomberg U.S. Corporate High Yield Index increased +1.4%. Shorter duration bonds outgained longer duration bonds as the Bloomberg US Intermediate Govt/Credit Bond Index (+0.3%) outperformed the Bloomberg US Govt/Credit Long Bond Index (-1.1%). The inversion between the 2-year Treasury and the 10-year Treasury narrowed this month, ending at -0.91%.

As the market continued to push higher in July on the back of a strengthening economy, optimism that the runway for a "soft landing" has widened. The economy has shown resiliency throughout the Fed's aggressive interest rate cycle and consumer spending habits remain largely undeterred. Regarding the direction of interest rates, Chairman Powell has placed significant emphasis on the upcoming economic releases over the next two months, highlighting the pivotal role of the July and August CPI reports in determining the need for further tightening. This suggests the possibility that the Fed may halt its tightening process, even though the median dot projection from June's meeting indicates at least one more hike. Moreover, Chairman Powell mentioned that the central bank's staff is no longer forecasting a U.S. recession.

See footnotes on the following page.

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