Fourth Street Performance Partners
Independent Investment Consultants

January 2024: Market Review

Global financial markets posted mixed results in January despite continued strength in economic data. The S&P 500 Index rose for the third straight month, increasing +1.7% and leading all major indices. The Dow Jones Industrial Average gained +1.3% in January. The tech-heavy NASDAQ added +1.0% as mega-cap earnings were unexceptional to begin the year. As Q4 earnings season began this month, high expectations surrounding artificial intelligence results led to a notable setback for influential companies in the S&P 500 that drove returns over the last calendar year, particularly seen from Tesla, Alphabet, and Apple. Real GDP growth for the fourth quarter was positive as the U.S. economy expanded at an annualized pace of +3.1%, fueled by household and government spending. The CPI measure of headline inflation increased to +3.4% year-over-year in December. The unemployment rate remained unchanged at 3.7% for the month of December. At the end of their January meeting, the Federal Reserve kept the federal funds rate unchanged and modestly pushed back on the market's expectations for six quarter-point rate cuts in 2024. Furthermore, the Federal Reserve emphasized its determination to reduce its balance sheet by a maximum of $95 billion each month.

In domestic equity markets, growth stocks outpaced value across all market capitalization sizes for the month of January, continuing a strong trend established in 2023. The Russell 1000 Growth Index gained +2.5% for the month versus the Russell 1000 Value Index return of +0.1%. Again, continuing a trend from 2023, large cap stocks outperformed smaller capitalization equities in January. The Russell Midcap Growth Index decreased -0.5% while the Russell Midcap Value Index fell -1.8%. The Russell 2000 Growth Index declined -3.2%, whereas the Russell 2000 Value Index decreased -4.5%.

Developed international equities underperformed U.S. equities as the U.S. dollar strengthened throughout January and geopolitical concerns weighed on international markets. The MSCI EAFE Index returned +0.6%, while the MSCI ACWI ex USA Index fell -1.0% over the month of January. Japan (+4.6%) outperformed other developed countries, driven by yen depreciation that fueled strong performance among Japanese exporters. Similar to the U.S. markets, large cap international companies (MSCI ex USA Large Cap Index, -0.8%) outperformed smaller cap international companies (MSCI ex USA Small Cap Index, -1.7%) in January. The MSCI Emerging Markets Index decreased -4.6% for the month, as China's economic sluggishness continues to be a headwind due to its significant weighting in emerging market indices

U.S. fixed income markets declined during the month as treasury yields on the longer end of the yield curve modestly rose. The Bloomberg U.S. Aggregate Index decreased -0.3% in January while the Bloomberg U.S. Treasury 20+ Year Index fell -2.7%. The Bloomberg U.S. Corporate High Yield Bond Index experienced no movement for the month, returning 0.0%. Yield inversions across the curve narrowed in January with the negative spread between the 2-year and the 10-year U.S. Treasury notes decreasing to -0.28%.

January presented a mixed landscape for global financial markets as positive momentum in mid-January waned in the final trading days of the month. In the aftermath of Fed Chairman Jerome Powell's post-meeting remarks, Wall Street is grappling with dashed hopes for a March rate cut, as Powell emphasized the need for greater confidence in inflation trends. However, on the positive side, the official statement from the Federal Reserve dropped the long-standing bias toward tightening, indicating a more balanced perspective on the future path of interest rates. As investors navigate through evolving market conditions, the interplay of economic indicators and geopolitical factors will continue to shape perceived actions from the Fed and, in turn, the direction of risk assets.

See footnotes on the following page.

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