



FOURTH STREET PERFORMANCE PARTNERS  
211 GARRARD STREET • COVINGTON, KENTUCKY 41011-1715

## December 2011: Market Review

Uncertainty in Europe dominated financial news in December, as it has for the past several months. Despite the struggles in Europe, U.S. equity markets were positive for the month. The Dow Jones Industrial Average gained 1.58% for the month, closing 2011 with a return of 8.38%. The S&P 500 Index rose 1.02% and finished the year in positive territory, up 2.11%.

U.S. economic news in December was mixed and was once again overshadowed by Europe's ongoing debt crisis. Consumer confidence, which rose to its highest level in eight months, indicates an improving view of the labor market. Likewise, the four-week average of unemployment benefit applications hit its lowest level since June 2008 during the month. However, according to the most recent S&P/Case-Shiller Home Price Index report, home prices fell in October on a month-over-month basis, despite historically low mortgage rates. Among commodities, barrels of WTI crude oil ended December just under \$100, while gold closed the month at \$1565 per troy ounce, down from \$1745 at the end of November.

Value style equities outperformed growth style equities across all capitalizations in December. Among large cap stocks, the Russell 1000 Value Index grew 2.02% in December and gained 0.39% for the year, while the Russell 1000 Growth Index dropped (0.32%), but finished the year up 2.64%. Small cap stocks were also mixed in December, as the Russell 2000 Value Index rose 1.57%, but closed 2011 down (5.50%), while the Russell 2000 Growth Index decreased (0.22%) and fell (2.91%) in 2011. The Russell Midcap Index dropped (0.12%) in December and lost (1.55%) for the year.

International equity markets fell in December, as European leaders continued to struggle to devise a comprehensive solution to the region's sovereign debt crisis. With recession looming, possible options for euro countries include breaking up the euro zone or creating a true central bank with the power to issue debt and print money, but the consequences of these actions are difficult to predict and may be unpopular politically in more stable euro countries such as Germany and France. The European Central Bank provided \$640 billion in low-interest loans to hundreds of banks with the hope of preventing a credit crunch, but this failed to result in a sustained rally in equity markets. The MSCI EAFE Index continued its slide, falling (0.95%) in December to finish the year down (12.14%). The MSCI Europe Index dropped (1.55%) and lost (11.06%) in 2011. The MSCI Emerging Markets Index was off (1.21%) for the month and dropped (18.42%) for the year.

Fixed income performance was positive in December as interest rates fell across the yield curve. The Barclays U.S. Aggregate Bond Index gained 1.10% during the month and was up 7.84% at the close of 2011. The Barclays U.S. Treasury Index ended December up 0.97%, bringing its yearly gain to 9.81%. The Barclays Treasury 20+ Year Index rose 3.40% for the month, which pushed its 2011 gain up to 33.84%. The Barclays Corporate High Yield Index grew 2.66% during the month, leaving it with a year-to-date return of 4.98%.

Investors are still awaiting a solution to Europe's troubles. With several meetings among European political leaders to discuss key issues planned for January, the picture of Europe's future and how markets may fare in 2012 could become clearer soon.