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November 2011: Market Review

After a strong October, the failure of the U.S. debt supercommittee to reach a deal to reduce government borrowing combined with uncertainty about the European Union's plans to address its debt crisis caused global equity markets to falter for much of November. Only a powerful rally on the last day of the month helped equity markets avoid steep losses. The Dow Jones Industrial Average gained 1.18% for the month, leaving it with a year-to-date return of 6.70%. The S&P 500 Index dropped (0.22%), but remains positive for the year, up 1.08%.

U.S. economic news in November was mixed and largely overshadowed by Europe's debt woes. Consumer confidence unexpectedly rose to its highest level since July during the month, and early reports indicate that the holiday shopping season is off to a strong start. According to the most recent S&P/Case-Shiller Home Price Index report, home prices fell in September on a month-over-month basis, signaling an end to the typically strong spring and summer buying period. The U.S. unemployment rate held steady at around 9%. Among commodities, barrels of WTI crude oil rose to \$100 by the end of November, up from October's closing price of \$93, while gold closed the month at \$1745 per troy ounce.

Growth and value styles both were down in November, but growth style equities continue to outperform value year-to-date across all capitalizations. Among large cap stocks, the Russell 1000 Growth Index fell (0.01%) in November, but has gained 2.97% for the year, while the Russell 1000 Value Index dropped (0.52%) and is down (1.59%) for the year. Small cap stocks were also down in November, as the Russell 2000 Growth Index lost (0.53%) and is down (2.69%) year-to-date, while the Russell 2000 Value Index decreased (0.20%) and has fallen (6.96%) thus far in 2011. The Russell Midcap Index dipped (0.50%) in November and is down (1.43%) year-to-date.

International equity indexes were down significantly in November, as European leaders struggled to control the region's debt crisis. Central banks from around the world agreed on a plan to provide liquidity to European banks through lower borrowing rates in order to avoid a credit crunch. Leaders also settled upon an expansion of the European Union's bailout fund, but it was recognized that the bailout fund might be less effective than previously hoped, and aid from the International Monetary Fund and the European Central Bank may be necessary. The MSCI EAFE Index fell (4.85%) in November and is down (11.30%) year-to-date. The MSCI Europe Index dropped (4.51%) and has lost (9.66%) year-to-date. The MSCI Emerging Markets Index was off (6.66%) for the month and has dropped (17.43%) year-to-date.

Even as equities fell, fixed income performance was mixed in November. The Barclays U.S. Aggregate Bond Index lost (0.09%) during the month, but is up 6.67% in 2011. The Barclays U.S. Treasury ended November up 0.75%, bringing its year-to-date gain to 8.76%. The Barclays Treasury 20+ Year Index was the best-performing fixed income index in November, gaining 3.11% for the month, which pushed its year-to-date gain up to 29.44%. The Barclays Corporate High Yield Index fell (2.16%) during the month, leaving it with a year-to-date return of 2.26%.

All eyes are on Europe as investors are waiting for the region's leaders to come up with a solution for ending its debt crisis and avoiding a disorderly breakup of the euro. Developments in this area over the next month will have a large impact on whether the markets can close out 2011 on a positive note or not. Everyone at Fourth Street Performance Partners would like to wish you a happy holiday season.