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Financial Market Review
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After 1998 delivered another year of unexpectedly strong returns in most asset classes, the last thing investors expected for 1999 was a continuation of the same trends. Nevertheless, at least as far as the US equity market is concerned, that is exactly what has happened so far. Inspired not only by a robust domestic economy where growth has continued without inflation but also by signs of stabilization and a possible turnaround in some of the foreign economies that were under pressure in 1998, a number of major market indices rose to new record levels over the course of the first quarter. The Dow Jones Industrial Average's historic first time close over 10,000 on March 29 highlighted and epitomized the monumental nature of this unprecedented bull market.

Yet the quarter also mirrored 1998 in another vitally important characteristic—the narrowness of gains and enormous dispersion in returns among stocks. As seen in the accompanying table, the large capitalization stocks represented in the DJIA and the Standard & Poor's 500 Index rose 7% and 5%, respectively, while the technology-dominated NASDAQ exchange stocks rose 12.3%. However, the average stock actually declined, as seen in the Value Line Index (recording the average performance of 1700 major stocks) losing 6.4% for the quarter. Small stocks continued 1998's poor performance, as the Russell 2000 Index declined 5.42%.

Even within the S&P 500 universe, the average stock rose less than 2%. The "Top 100" in the Index rose 7.39% compared to 4.98% for the overall Index. All of the Index's gains were represented by the advances of 21 of the 500 stocks, and one-third of the Index's gain was achieved by only two stocks (Microsoft and America Online). Similarly, three of the thirty stocks represented more than half the quarterly gain in the Dow Jones Industrial Average. Even more telling, about two-thirds of the stocks on the NASDAQ exchange were down for the quarter despite the composite index's 12.3% rise.

There was much debate over whether stratospheric market valuations of new technology companies, particularly

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Internet-related companies that are years away from realizing any profit, are rational or the sign of a frenzied market "bubble", but there was no question that the telecommunications, software, and technology sectors were continuing to lead the market's march to new levels.

Investors in small cap stocks continued to bemoan that sector's startling underperformance, but there was also increasing realization that perhaps larger companies were best positioned for success in today's global economy. Moreover, reported profits for the large cap companies were generally better than for small companies.

The table also shows the continuation of another dramatic trend from 1998. For both large and small cap stocks, growth stocks maintained a sharp advantage in performance over value stocks. Indeed, vividly epitomizing the market's sharp dichotomies over the twelve months ending March 31, 1999, large cap growth stocks outperformed small cap value stocks by an astounding 53% over these four quarters!

Overseas, European stocks generally declined as the advent of the Euro has so far failed to bring about the anticipated new era of prosperity. On the other hand, Latin American and Asian markets (including Japan) were surprisingly strong. The Morgan Stanley Europe Australasia & Far East (EAFE) Index was up 1.03% for the quarter. Beginning a recovery from last year's debacle, the Morgan Stanley Emerging Markets Index was up 12.41% for the quarter.

While the resilience of the US economy and the apparent stabilization of Asian and Latin American economies were music to the ears of equity investors, the economic environment was not as well received by the US bond market, where indications of healthy economic growth traditionally inspire fears of higher inflation. The Federal Reserve was on

hold during the quarter, but long term US Treasury rates rose from 5.10% to 5.62%. With the abating of world crises, Treasuries were no longer needed as a haven of safety. With the US economy apparently moving ahead on all cylinders, fears began to rise that the next Fed move might be to tighten.

Treasuries, which had been the best performers during 1998's crisis-dominated market, were the worst performers during the first quarter as the yield spread between them and other sectors narrowed from last year's significant widening. Indeed, February was the worst single month of performance for Treasuries in eighteen years. Corporate bonds did better than Treasuries as yield spreads narrowed, while mortgage-backed securities and high-yield ("junk") bonds had positive returns for the quarter.

Actual returns are not yet available for indices tracking real estate and alternative investments. For real estate, the market for private real estate appeared to be strong in most market sectors and in all regions of the country. Nevertheless, publicly-traded Real Estate Investment Trusts continued to decline in value, in a recent trading pattern that some have likened to that of small cap stocks. Many REITs are thought to be currently trading at levels below their intrinsic property market values. In terms of venture capital and other forms of private equity, it is likely that returns will be generally impressive, reflecting the good economic conditions and the healthy public equity market.

The PERAC Investment Unit welcomes any comments you may have on this report and encourages all boards to contact us at any time for assistance relating to investment activities. Extra copies of this report are available.

FIRST QUARTER 1999

U.S. EQUITY MARKET

INDEX	RETURN	INDEX DESCRIPTION
DOW JONES INDUSTRIAL AVG.	+ 7.04%	30 INDUSTRIAL STOCKS
STANDARD & POOR'S 500	+ 4.98%	LARGE CAP STOCKS
NASDAQ COMPOSITE	+ 12.3%	TECHNOLOGY-LADEN EXCHANGE
VALUE LINE	- 6.4%	BROAD MARKET INDEX
S&P MIDCAP 400	- 6.38%	
RUSSELL 2000	- 5.42%	SMALL CAP STOCKS

GROWTH vs VALUE

S&P 500 GROWTH	+ 6.88%
S&P 500 VALUE	+ 2.85%
RUSSELL 2000 GROWTH	- 1.68%
RUSSELL 2000 VALUE	- 6.83%

ONE YEAR ENDING MARCH 31, 1999

WHERE TO BE:	S&P 500 GROWTH	+ 30.69%
WHERE NOT TO BE:	RUSSELL 2000 VALUE	- 22.03%

U.S. FIXED INCOME MARKET

LEHMAN BROTHERS AGGREGATE INDEX	- 0.51%
LEHMAN BROTHERS CORPORATE INDEX	- 0.70%
LEHMAN BROTHERS GOVERNMENT INDEX	- 1.43%
LEHMAN BROTHERS MORTGAGE INDEX	+ 0.98%
FIRST BOSTON HIGH YIELD INDEX	+ 1.64%

GLOSSARY

Dow Jones Industrial Average

A price-weighted index tracking thirty large industrial companies selected by the editors of *The Wall Street Journal*.

Standard & Poor's 500 Index

A broad-based market index, weighted by market capitalization, that comprises about 75% of the total market value of publicly traded US equities.

NASDAQ

The National Association of Securities Dealers Automated Quotation System is an over-the-counter trading exchange used mainly by newer, technology-oriented companies.

Russell 2000

The major index that tracks small capitalization stocks.

Large Capitalization Stock

Total market value of outstanding stock exceeds \$5 billion.

Mid-cap stock

Between \$1-5 billion in market capitalization.

Small-cap stock

Less than \$1 billion market value of stock outstanding.

Growth stock

Stock of companies that, due to their strong earnings potential, offer above-average prospects for capital appreciation, with less emphasis on dividend income.

Value stock

Stocks that, considering a company's assets and earnings history, are attractively priced relative to current market standards of price-to-earnings ratios, price-to-book ratios, et al. They typically pay regular dividends to shareholders.

Price/Earnings Ratio

Sometimes referred to as the "multiple", the P/E Ratio is the stock price divided by the company's net income per share over the past twelve months.

Treasury yield

The current market interest rate on bonds issued by the US Treasury with a specific maturity date (i.e. 30 years). Bonds are issued at a specific interest rate and at a specific price (such as 100 or "par") but the subsequent price and yield will be determined every day by prevailing market conditions. If rates generally rise (fall) after initial issuance, the price of the original bond will fall (rise) in order to make the effective yield on the bond rise (fall) to a level consistent with those on currently issued securities.

Corporate bond spread

The "spread" is the incremental yield offered by corporate bond issuers over those of US Treasury securities of similar maturity. The spread is a measure of investors' willingness to assume the extra credit risk inherent in corporate securities compared to virtually riskless US Treasuries.