Economic & Market Overview

Bright summer for U.S. equities

U.S. stocks rose for the sixth straight month in September, ending near all-time highs and helping the S&P 500 Index post its biggest quarterly gain since 2013. Strong earnings growth and a range of positive economic data in the U.S. helped investors tune out political risk. This fueled the outperformance of domestic stocks over global markets in recent months. Foreign developed market equities advanced in September but have trailed U.S. equities significantly for the quarter and the year. Despite diminished currency volatility, emerging markets equities retreated for the month as tighter financial conditions and continued trade tensions were strong headwinds. Refer to Table 1 for trailing returns across equity markets.

What worked in September?

The newly expanded communications services sector included many of the quarter’s strongest performers. As a result, this sector led all other groups, with the health care and energy sectors also showing strong results. Real estate and financials were the worst performing sectors. There were signs of rotation in the market as technology and small cap equities, the best performing sector and asset class year to date, retreated during the month. Value-oriented equities lagged growth despite outperforming earlier in the month. Refer to Chart 2 for trailing returns across sectors in equity markets.

Risk-on market weighed on bonds

Treasuries were under pressure in September as yields rose materially across the board. A rate hike by the Federal Reserve lifted the short end of the curve, while yields on longer maturity Treasuries rose amid increased economic optimism. Rates on 10-year Treasury notes approached 7 year highs, ending the month over 3%, the highest level in 4 months. As yields rose, long duration Treasuries were among the worst performing sectors for the month and quarter. High yield was a standout sector during the month, adding to a solid gain for the quarter as strong corporate earnings and a growing economy provided a favorable backdrop. Refer to Table 1 for trailing returns across fixed income sectors.

Emerging Markets held back global equity returns

Stocks of emerging market countries dramatically outperformed the U.S. and other developed markets in the 1990’s and the first decade of the 2000’s. Emerging markets benefited from increasing global trade, foreign investments, rising commodity prices, and the growth of China as a manufacturing hub. Over the last year this trend sharply reversed. Recent trade and tariff issues raised concerns of de-globalization. Rising U.S. interest rates and a strong U.S. dollar have also put pressure on emerging market countries like Turkey that have U.S. dollar-denominated debt. Emerging market valuations have fallen, but may not reflect all of the current headwinds and, as a result, a quick pick-up in emerging market returns may not yet be at hand.

There are more jobs available in the U.S. than there are job seekers

The number of unemployed workers skyrocketed to more than 15 million in 2009 after the recession. They were competing to get one of only 2 million jobs available. Now, in the tenth year of recovery the situation is reversed. The number of available jobs has tripled to over 6.5 million as the economy has shown consistent growth. But the number of unemployed people is below that. Even if job seeker got a job there would still be open positions. This labor shortage has led to a gradual rise in wage increases as companies compete for workers.

Available Jobs vs. Unemployed Workers

Source: U.S. Bureau of Labor Statistics
Buybacks have been on a roll

Stock market buybacks and dividends have posted record numbers so far this year. According to preliminary results released by S&P Dow Jones Indices in September, S&P 500 Index companies spent a record $191 billion on buybacks in Q218, up 58% year-over-year. Dividends also increased, but not to the same extent. Total buybacks and dividends for the year ending June 2018 jumped 19.1% to a record $1 trillion, with nearly three-quarters of the increase from buybacks—a significant tailwind for EPS and stock prices in 2018.

Wondering where the companies are getting this capital? The tax reform act that Congress passed last December cut corporate tax rates, raising cash flow on an ongoing basis. It also provided a tax holiday on foreign profits, spurring multinational corporations to repatriate hoards of cash parked overseas.

### TABLE 1 – Index Returns (%)

<table>
<thead>
<tr>
<th>Index</th>
<th>1-Month</th>
<th>3-Month</th>
<th>YTD</th>
<th>1-Year</th>
<th>3-Year (annualized)</th>
<th>5-Year (annualized)</th>
<th>10-Year (annualized)</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Large Cap (S&amp;P 500®)</td>
<td>0.57</td>
<td>7.71</td>
<td>10.56</td>
<td>17.91</td>
<td>17.31</td>
<td>13.95</td>
<td>11.97</td>
</tr>
<tr>
<td>U.S. Small Cap (Russell 2000®)</td>
<td>-2.41</td>
<td>3.58</td>
<td>11.51</td>
<td>15.24</td>
<td>17.12</td>
<td>11.07</td>
<td>11.11</td>
</tr>
<tr>
<td>U.S. Growth (Russell 3000® Growth)</td>
<td>0.33</td>
<td>8.88</td>
<td>16.99</td>
<td>25.89</td>
<td>20.36</td>
<td>16.23</td>
<td>14.18</td>
</tr>
<tr>
<td>U.S. Value (Russell 3000® Value)</td>
<td>0.00</td>
<td>5.39</td>
<td>4.17</td>
<td>9.46</td>
<td>13.75</td>
<td>10.65</td>
<td>9.76</td>
</tr>
<tr>
<td>Foreign Developed Markets (MSCI® EAFE®)</td>
<td>0.87</td>
<td>1.35</td>
<td>-1.43</td>
<td>2.74</td>
<td>9.23</td>
<td>4.42</td>
<td>5.38</td>
</tr>
<tr>
<td>Foreign Emerging Markets (MSCI® EM)</td>
<td>-0.53</td>
<td>-1.09</td>
<td>-7.68</td>
<td>-0.81</td>
<td>12.36</td>
<td>3.61</td>
<td>5.40</td>
</tr>
<tr>
<td>U.S. Bonds (Bloomberg Barclays U.S. Aggregate)</td>
<td>-0.64</td>
<td>0.02</td>
<td>-1.60</td>
<td>-1.22</td>
<td>1.31</td>
<td>2.16</td>
<td>3.77</td>
</tr>
<tr>
<td>U.S. TIPS (Bloomberg Barclays U.S. TIPS)</td>
<td>-1.05</td>
<td>-0.82</td>
<td>-0.84</td>
<td>0.41</td>
<td>2.04</td>
<td>1.37</td>
<td>3.32</td>
</tr>
<tr>
<td>U.S. HY Bonds (Bloomberg Barclays U.S. HY 2% Issuer Cap)</td>
<td>0.56</td>
<td>2.40</td>
<td>2.57</td>
<td>3.05</td>
<td>8.15</td>
<td>5.55</td>
<td>9.46</td>
</tr>
</tbody>
</table>

Sources: SAAMCo and Wilshire Compass. Indices are unmanaged and cannot be invested in directly. Past performance is no guarantee of future results.

### CHART 2 - S&P 500 Sector Returns

Periods ending September 30, 2018

Market Perspective is published monthly by SunAmerica Asset Management, LLC (SAAMCo). Although the information herein has been obtained from resources believed to be reliable, SAAMCo does not guarantee its accuracy, completeness, or fairness. Opinions and estimates may be changed or withdrawn without notice. The information contained in this report should under no circumstances be considered investment advice or recommendations for the buying or selling of any security or commodity. SAAMCo is a member of American International Group, Inc. (AIG).
The price of equity securities may rise or fall because of changes in the broad market or changes in a company’s financial condition, sometimes rapidly or unpredictably.

**Bonds** may cause the value of your investment to go up or down in response to changes in interest rates or defaults (or even the potential for future defaults) by bond issuers.

**Value Investing** - The investor’s judgment that a particular security is undervalued in relation to the company’s fundamental economic value may prove incorrect.

**Growth Investing** - These stocks normally carry higher price/earnings ratio than many other stocks. If earnings expectations are not met, market price of growth stocks will often decline more than others stocks.

**International** investing involves a greater degree of risk and increased volatility. In emerging countries, these risks may be more significant.

**S&P 500® Index** tracks the common stock performance of 500 large-capitalization companies publicly traded in the United States.

**Russell 2000® Index** measures the performance of the 2,000 smallest companies in the Russell 3000® Index and is widely recognized as representative of small-cap stocks.

**Russell 3000® Growth Index** measures the performance of those Russell 3000® Index companies with higher price-to-book ratios and higher forecasted growth values.

**Russell 3000® Value Index** measures the performance of those Russell 3000® Index companies with lower price-to-book ratios and lower forecasted growth values.

**MSCI® EAFE® Index** is a free float-adjusted market capitalization index that is designed to measure equity market performance of developed markets. It includes stocks from 21 developed markets, but excludes U.S. and Canada.

**MSCI® Emerging Markets Index** is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.

**Bloomberg Barclays U.S. Aggregate Bond Index** is an unmanaged index of domestic investment-grade bonds, including corporate, government and mortgage-backed securities.

**Bloomberg Barclays U.S. High-Yield 2% Issuer Capped Bond Index** is a component of the Bloomberg Barclays U.S. Corporate High-Yield Bond Index, which covers fixed-rate, non-investment grade corporate debt of issuers in non-emerging market countries. It is not market capitalization-weighted—each issuer is capped at 2% of the index.

**Bloomberg Barclays U.S. Treasury Inflation Protected Securities (TIPS) Index** consists of Treasury inflation-protected securities issued by the U.S. Treasury with a remaining maturity of one year or more.

This report is to be used for informational purposes only. In no event should it be construed as a solicitation or offer to purchase or sell a security.

The information presented herein is taken from sources believed to be reliable, but is not guaranteed by SAAMCo as to accuracy or completeness.

---

**About SAAMCo**

SAAMCo is an established asset management boutique that helps shareholders build wealth through a series of disciplined investment strategies and innovative products. SAAMCo managed or administered $89 billion as of June 2018.