Economic & Market Overview

U.S. equities rise for third consecutive quarter:
Stock markets rebounded in September, marching broadly higher in a typically weak month for equities. Amid improved market sentiment, U.S. markets weathered a string of negative developments, including a surprise attack on Saudi Arabia’s oil sites fueling concerns about supply, ongoing trade tensions, and a formal impeachment inquiry of President Trump. The S&P 500 Index closed higher for the month, pushing it within a close distance of its record high. International stocks outperformed U.S. stocks for the month, narrowing a sizeable performance gap for the quarter and year. Refer to Chart 1 for trailing returns across equity markets.

What worked in September?
The market rally showed good breadth, with most economic sectors advancing for the month. Most notably, a sharp rotation from growth to value stocks early in the month helped push financials and energy, sectors traditionally associated with the value style, among the top performing groups for the month. Healthcare, communications services, and consumer discretionary lagged all sectors. Small cap equities were favored for the month, also contrasting with recent trends. Refer to Chart 2 for best and worst performing equity sectors for the month.

Bond markets take a breather:
After a strong rally in August, fixed income assets saw negative returns across most sectors in September. Consistent with the market’s risk-on tone, fixed income investors rotated towards credit sensitive sectors during the month, favoring high-yield issues. Rates rose, with 10-year Treasury yields rising 18 basis points to end at 1.68%, their biggest monthly rise in a year. A steepening yield curve helped reverse the feared yield curve inversion between 10-year and 2-year bonds. As expected, the U.S. Federal Reserve cut rates by 25 basis points for a second time and left the door open for additional cuts if needed. Refer to Chart 1 for trailing returns across fixed income sectors.

Mixed news on U.S. Manufacturing:
Two U.S. purchasing manager surveys for September were just released with differing results. The manufacturing sector is only about 12% of the U.S. economy. But analysts closely follow manufacturing surveys as they are viewed as a signal of economic growth. ISM’s U.S. survey was the weakest result since 2009. It shows U.S. manufacturing shrinking for the second month in a row, indicating a slowdown in production and employment ahead. The weakest component was export orders, which highlights the economic damage from trade wars.

Stocks now have higher yield than bonds
Investors typically focus on bonds when they want income and on stocks when seeking capital gains. But U.S. Treasury yields have fallen so much that the S&P 500’s dividend yield is now higher than the 10-year U.S. Treasury bond yield.

DID YOU KNOW?

Stock and Bond Yields Over Time
with China and other countries. PMI Markit’s U.S. survey shows that manufacturing picked up last month, but they warn that companies are cutting hiring plans as new orders and order books fall. Bad news on U.S. manufacturing growth may turn into a positive if it highlights to politicians the need for long-term trade deals, particularly between the U.S. and China.

New housing rises on lower rates:
The housing market was at the center of the global financial crisis and it took many years for prices to get back to 2007’s peak levels. But investments in new houses have remained very low. August was a good month as permits for new houses and construction starts both hit the highest level since 2007. Residential investments fell last year but are expected to grow 4.5% this quarter. Falling Treasury and mortgage rates this summer may be boosting housing. The year started with 30-year mortgage rates at 4.5% but have fallen below 4% since June. Housing prices continue to rise. And more than 95% of homeowners have positive equity in their home. So housing is again one of the bright spots of the economy.
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.

Futures contract is a legal agreement to buy or sell a particular commodity or asset at a predetermined price at a specified time in the future. Futures contracts are standardized for quality and quantity to facilitate trading on a futures exchange. The buyer of a futures contract is taking on the obligation to buy the underlying asset when the futures contract expires. The seller of the futures contract is taking on the obligation to provide the underlying asset at the expiration date.

Housing performance return is the year-over-year gain in the median existing-home price for all housing types, reported by the National Association of Realtors® every month.

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 1000® Growth Index measures the performance of those Russell 1000® Index companies with higher price-to-book ratios and higher forecasted growth values.

Russell 1000® Value Index measures the performance of those Russell 1000® Index companies with lower price-to-book ratios and lower forecasted growth values.

MSCI® EAFE® Index is a free float-adjusted market capitalization index designed to measure the 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 1-3 Month U.S. Treasury Bill is designed to measure the performance of public obligations of the U.S. Treasury that have a remaining maturity of greater than or equal to 1 month and less than 3 months. The Index includes all publicly issued zero coupon U.S. Treasury Bills that have a remaining maturity of less than 3 months and at least 1 month, are rated investment-grade, and have $300 million or more of outstanding face value.

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.

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