Economic & Market Overview

Equities reach new highs:
 Stocks kicked off the last quarter of the year with sizeable gains, helped by signs of progress in U.S.-China trade negotiations, further monetary stimulus from the Federal Reserve, and better than expected economic data. Corporate earnings have so far topped estimates and, despite a slowdown in manufacturing and business investment, U.S. GDP growth came in better than expected, largely propelled by a resilient consumer sector. Even as U.S. equities hit fresh all-time highs, they trailed foreign equity markets as the U.S. dollar saw its largest monthly drop in over a year. Refer to Chart 1 for trailing returns across equity markets.

What worked in October?
 Health Care and Information Technology were the leading sectors, with the Pharmaceuticals, Biotechnology, and Semiconductors industries among the bright spots. The Energy, Utilities, and Consumer Staples sectors trailed. After a rare rotation toward value last month, growth equities resumed their leadership in October. Investors had a slight preference for small cap equities. Refer to Chart 2 for best and worst performing equity sectors for the month.

Yield curve shifts:
 Bond yields gyrated in October, but increasingly positive risk sentiment pushed longer-dated U.S. Treasury rates higher for the month. The Federal Reserve unveiled a plan to buy $60 billion a month in short-term Treasury bills to ease strains in money markets, driving yields on shorter-dated Treasuries lower. This helped steepen the yield curve, further reversing the slight inversion from late August. The Federal Reserve lowered interest rates by 25 basis points for the third time this year as expected, but hinted it is shifting to a more neutral view. Credit spreads steadily tightened over the month, lifting the high yield sector to its fifth consecutive monthly gain. Refer to Chart 1 for trailing returns across fixed income sectors.

U.S. GDP grows but at a slower pace, as other large economies struggle:
 Real GDP in the U.S. grew at an annualized rate of 1.9% in the third quarter, down slightly from 2% in the second quarter, according to the advance estimate by the Department of Commerce’s Bureau of Economic Analysis. The results, however, came in better than expected, fueled by continued consumer spending which comprises a significant portion of the growth. Real consumer spending grew at a 2.9% annualized rate. Despite the slowing growth from last quarter, the U.S. still has more robust growth than most G7 countries. Most notably, Germany and the U.K. have had negative growth in the second quarter and a recession is feared in those countries if third quarter GDP data comes in negative again. The U.S. is still considered (continued on back)

Unemployment rate is near its lowest level in 50 years
 U.S. job growth remains strong. The U.S. economy added 128,000 jobs in October, greatly topping estimates, while employment gains for prior months were also revised substantially higher. The U.S. economy has created new jobs every month for nine consecutive years, shrinking the unemployment rate to 3.6% at October 31. The recent months’ levels haven’t been seen since 1969.

Source: FactSet, U.S. Bureau of Labor Statistics
one of the bright spots in the world against the backdrop of a trade war and sustained geo-political tensions globally.

**Third quarter stock market earnings are low but coming in above expectations:**

Almost two-thirds of S&P 500 companies have reported third quarter 2019 earnings. Estimates for this quarter fell 8.5% from the beginning of the year to the end of September. This lowered expectations for the quarter to a 4% fall in earnings from 2018. Cyclical sectors such as Energy and Consumer Discretionary had the largest earnings declines while Utilities and Financials had the strongest growth. So far the earnings season is going well. According to FactSet an above-average number of companies are beating earnings and revenue estimates, and the market is pushing these companies’ stocks higher. But the good news has not yet led to higher estimates for 2020. This may be because 2020 numbers are already pricing in almost 10% year-over-year earnings growth. Much of this comes from an expected rebound in cyclical sectors like Energy, Industrials and Materials. But earnings growth may also pick up next year due to easier year-over-year comparisons. Nevertheless, S&P 500 revenue for 2019 is expected to grow only about 4%, potentially making higher, double-digit earnings growth harder to achieve.
Past performance does not guarantee future results.
Diversification does not guarantee investment returns and does not eliminate the risk of loss.

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 contracts 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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