# Global Market Commentary – September 2020

## Markets Retreat During September

Global equity markets reversed in September, halting the five straight positive months enjoyed by U.S. equity markets as:

- The DJIA finished September down 2.3%
- The S&P 500 finished September down 3.9%
- NASDAQ finished September down 5.2%

September 2020 will be remembered as reinforcing the notion of the September Swoon – that seasonal trend in the stock market and one that has been well documented by researchers and the press. The fact is, September has historically been the worst month on the calendar for stocks – from 1928 through 2019, the S&P 500 Index has fallen an average of 1.0% in September, according to Standard & Poor's and Haver Analytics.

September's retreat was particularly challenging as just the month before, the U.S. equity markets were turning in record performance, with:

- The DJIA recording its best August since 1984;
- The S&P 500 recording its best August since 1986; and
- NASDAQ recording its best August since 2000

It seems as if the mostly positive economic news from August gave way to a mix of negative and positive news during the month of September, which might have contributed to the markets' retreat.

- Volatility, as measured by the VIX, spiked in the first few trading days of September, but then trended down, ending the month almost exactly where it started at 26
- The U.S. oil benchmark, West Texas Intermediate, was a bit volatile for the month, starting September at $42.61/barrel and losing $6/barrel in the first week before climbing steadily to end the month just above $40/barrel

## Market Performance Around the World

After gains in most asset classes over the past five months, investors saw most equity markets worldwide retreat. In fact, of the 35 developed markets tracked by MSCI, all were negative in September, with 30 of the 35 losing more than 3% and MSCI Pacific ex-Japan losing the most with a monthly return of -6.36%.

| Index Returns | September 2020 |
|---|---|
| MSCI EAFE | -2.86% |
| MSCI EURO | -3.88% |
| MSCI FAR EAST | -0.55% |
| MSCI G7 INDEX | -3.62% |
| MSCI NORTH AMERICA | -3.91% |
| MSCI PACIFIC | -1.85% |
| MSCI PACIFIC EX-JAPAN | -6.36% |
| MSCI WORLD | -3.59% |
| MSCI WORLD EX-USA | -3.08% |

*Source: MSCI. Past performance cannot guarantee future results*

## Snowflakes in September

Technically, it was still summer when shares of Snowflake, a cloud data warehousing company, doubled on their first day of trading in the biggest software IPO ever. Interestingly, the expected debut price of Snowflake was originally in the $75 - $80 per share range, but then it was announced that Warren Buffett and Salesforce were both sinking hundreds of millions into Snowflake via a private placement. That news helped push Snowflake's IPO expectations up by about 50% to the $100 - $120 per share range.

Demand for the IPO was so great that shares finally ended up debuting at $245/share – more than triple the original expectations. Expectations that were established, by the way, by excitable investment bankers who are known to err on the side of higher prices for IPOs (because they make more money). Within the first day of trading, Snowflake was trading over $300/share as 28 million shares were sold and $3.4 billion was raised.

## Positive Economic Data

While the previous five months saw the stock markets claw back much of the COVID-19-bear-market-losses, September caused investors to worry about the recovery, with the S&P 500 dipping into correction territory for a brief period of time. And this was during a month where there was consistently lower volatility, relatively stable oil prices, and maybe more positive versus negative economic news.

Further, September saw Value names outpace Growth names as September turned in its worst month in almost 10 years. To put the Growth versus Value competition in perspective consider that the Russell 1000 Growth Index had outpaced the Russell 1000 Value Index for the past 11 months. But that changed this September as the Russell 1000 Growth Index lost 4.8% and the Russell 1000 Value Index dropped 2.6%.

Whether September ushered in a rotation between Growth and Value or investors were taking money off the table from the mega-cap growth technology names is anyone's guess.

All that being said, the positive and negative economic news can at times be challenging to interpret as it should be viewed from the perspective of very depressed levels given the havoc that COVID unleashed on our economy.

## Sector Performance

The overall trend for sector performance for the month of September was overwhelmingly negative, as September saw 10 of the 11 S&P 500 sectors finish the month lower.

In many ways, September was the mirror of August, but examining the YTD sector returns shows that there are still quite a few sectors that have a lot of ground to cover to get back to positive returns – especially the Energy, Real Estate, Utilities and Financials sectors.

***Here are the sector returns for shorter time periods:***

| *Sectors* | *YTD* | *September 2020* |
|---|---|---|
| Healthcare | 3.60% | -1.98% |
| Consumer Discretionary | 22.45% | -3.53% |
| Industrials | -5.37% | -2.02% |
| Financials | -21.73% | -4.86% |
| Information Technology | 27.52% | -5.08% |
| Materials | 3.67% | -0.41% |
| Energy | -50.16% | -16.51% |
| Consumer Staples | 1.88% | -2.16% |
| Communications Services | 7.62% | -6.87% |
| Utilities | -8.07% | 1.13% |
| Real Estate | -8.89% | -3.33% |

*This chart is for illustrative purposes only and does not represent the performance of any specific security. Past performance cannot guarantee future results. Source: Standard and Poor's*

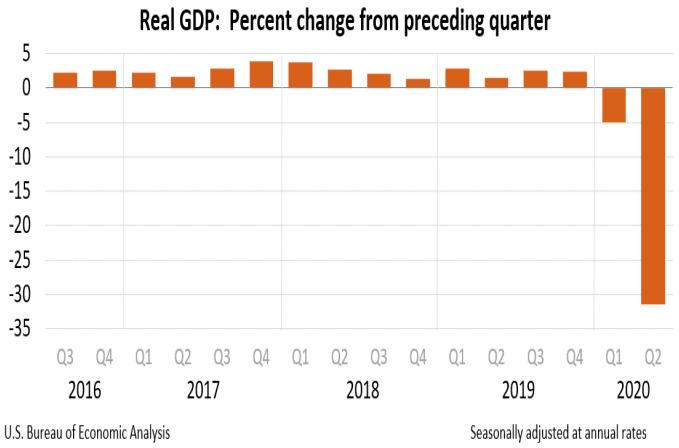
Reviewing the sector returns for just the month of September 2020 and YTD through September 30, 2020, we saw that:

- 10 of the 11 sectors were painted red for the month of September
- The Energy sector was the once again the worst performer for the month as it dropped a whopping 16.5%, despite the price of West Texas Intermediate crude trading in a relatively narrow range all month
- The differences between the best performing and worst performing sectors in September was once again dramatic, with Utilities scraping out a gain of a little more than 1% and Energy losing more than 16%
- On a YTD basis, the differences between the best and worst performing sectors is even more dramatic, as Information Technology sector is up over 27%+ YTD and Energy is down a whopping 50%+
- At the end of June, there were only 2 sectors with positive YTD performance – Information Technology and Consumer Discretionary
- At the end of July, there were 2 more – Health Care and Communication Services
- At the end of August, we added Consumer Staples and Materials to the positive YTD column
- Thankfully, September's numbers were not negative enough to push those six sectors into the red YTD territory

*Here are a few of the major economic themes investors received in September:*

## Worst GDP Decline in History

On September 30th, the Commerce Department reported that its "Third Estimate" of 2Q2020 GDP improved marginally to a decline of 31.4%. But saying it improved marginally seems disingenuous on its face because this 30%+ decline is on the heels of the 5% decline in the first quarter. And whether the number is 31.4% or 32.9% (from the second estimate), it's still the worst quarterly decline in history – by a long shot.




## Housing Stays Hot

On Tuesday, September 22nd, the National Association of Realtors released Existing Home Sales Data for the month of August and not only was August the third consecutive month of positive sales gains, but all four major regions of the country experienced month-over-month and year-over-year gains. Consider these eye-popping stats:

- Total existing-home sales rose 2.4% in August.
- Sales were up 10.5% from a year ago.
- August's national price increase marks 102 straight months of year-over-year gains.
- Unsold inventory sits at a 3-month supply.
- Properties typically remained on the market for 22 days in August.
- Sixty-nine percent of homes sold in August 2020 were on the market for less than a month.

## Skyrocketing Home Prices in August 2019

Consider these eye-popping price increases:

- The median existing-home price for all housing types in August was $310,600, up 11.4% from August 2019 ($278,800), as prices rose in every region.
- Existing-home sales in the Northeast jumped 13.8% in August and the median price of $349,500 was a 10.4% increase from a year ago.

- Existing-home sales in the Midwest increased 9.3% from a year ago and the median price of $246,300 was a 10.7% increase from a year ago.
- Existing-home sales in the South rose 13.0% from a year ago and the median price of $269,200 was a 12.3% increase from August 2019.
- Existing-home sales in the West leapt 9.6% from a year ago and the median home price of $456,100 was a 11.8% jump from August 2019.

## Retail Sales Beyond Pre-COVID Levels

On September 16th, the Census Bureau issued a press release that can be summarized as follows: retail sales have been leading the 2020 recovery and since June have exceeded February's pre-COVID levels. Specifically:

- Advance estimates of U.S. retail and food services sales for August 2020 were $537.5 billion, an increase of 0.6% from the previous month and 2.6% above August 2019.
- Total sales for the June 2020 through August 2020 period were up 2.4% from the same period a year ago.
- Retail trade sales were up 0.1% from July 2020 and 5.1% above last year.
- Nonstore retailers were up 22.4% from August 2019, while clothing and clothing accessories stores were down 20.4% from last year.

## Fewer Companies Issuing Earnings Guidance

Research firm FactSet reported that for the second quarter, there were only 53 of the S&P 500 companies issuing quarterly EPS guidance, which was the lowest number of companies issuing guidance since FactSet began tracking this metric in 2006.

As of September 25th, only 67 companies have issued guidance for the third quarter, which is well below the five-year average of 104. And if that number of 67 holds, it will be the second lowest number of companies issuing guidance behind the record set last quarter.