

# Economic & Market Commentary

## Market Update – September 2019

The final month of the third quarter was positive for global stocks (+2.1%), which are now up 15.9% year-to-date. Bonds (-0.4%), on the other hand, fell slightly as yields ended the month on a higher note. Year-to-date, however, bonds have benefited from price appreciation and have returns of +6.4% (U.S.) and +10.0% (international). Alternative asset classes (REITs, commodities, and reinsurance) moved higher, while managed futures gave back some gains.

### Economy

- Inflation (Consumer Price Index) remained unchanged at +1.8% year-over-year.
- The final estimate of second quarter Real GDP Growth came in at an annualized +2.0%, unchanged from the previous estimate.
- Housing starts picked up by 12% to a 1.36 million-unit pace, the highest since June 2007.

### Stocks

- U.S. stocks were buoyed by the energy, utilities, and financial sectors. Large value stocks (+3.7%) outperformed the broad large cap market (+1.9%), while small value also performed well (+4.9%).
- A similar theme carried out in the international developed markets with large value being the leader (+4.8%).
- Despite a strong return from South Korea (+7.2%), emerging markets (+1.7%) lagged developed markets.

### Bonds

- With the exception of short-term bonds, the slight rise in yields resulted in a modest pullback in U.S. intermediate (-0.4%), international (-0.4%), and inflation bonds (-1.4%).
- In September, the Federal Reserve lowered the short-term rate to a range of 1.75-2.00%.

### Alternatives

- Reinsurance (+1.7%), global REITs (+2.7%), and commodities (+1.2%) were all positive while managed futures trended lower (-4.5%).

## Who Let the Doves out?

With global economic and profit growth slowing, central banks around the world have shifted their policies to be accommodative or dovish. Specifically, central bank action of late has been to lower short-term interest rates to combat weakening growth. For example, the U.S. Federal Reserve's (Fed) most recent rate cut was in September 2019. Taking the lead from major central banks, there have also been cuts in numerous emerging market countries.

Here's a brief summary of some short-term rates today:

Country	Rate
U.K.	0.75%
U.S.	1.75-2.00%
Europe	0.00%
Japan	-0.10%
Australia	0.75%
China	4.20%

*Data as of 9/30/2019*

These rate cuts, as well as other stimulative measures by central banks, should be supportive of global growth. However, the effect is not immediate and it takes some time to make its way through the financial system. For example, while homebuilder optimism and housing starts/permits data have picked up, manufacturing data is not yet showing signs of reversing the recent negative trend.

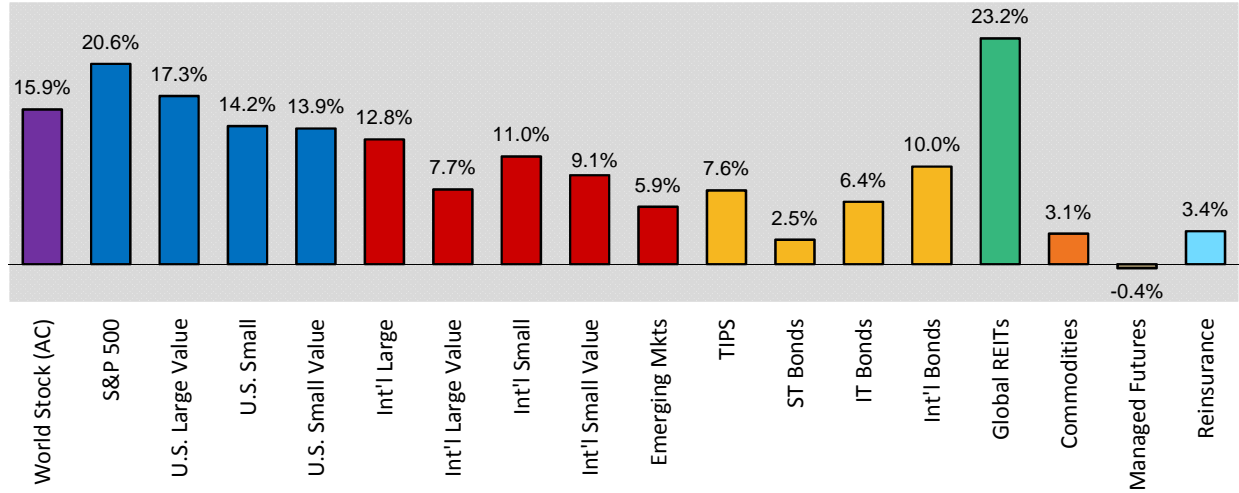
What does this mean for portfolios? For those with globally diversified portfolios, the accommodative measures should help support the underlying fundamentals that can drive equity markets, such as profitability and growth. As for bonds, despite interest rates being at historic lows, we still believe high quality bonds are integral for portfolio stabilization. It can also be beneficial to maintain exposure to various types of bonds (government, corporate, securitized, and inflation-protected) each with unique characteristics for different market environments.

*Sources: Bis.org, Morningstar, Bloomberg, JP Morgan*

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**MARKET RETURNS**  
Year-To-Date as of 9/30/2019



**MARKET RETURNS - Longer Term Annualized as of 9/30/2019**

	1 Month	YTD	1 Year	3 Years	5 Years	10 Years	15 Years
<b>STOCKS</b>							
S&P 500	1.9%	20.6%	4.3%	13.4%	10.8%	13.2%	9.0%
U.S. Large Value	3.7%	17.3%	4.5%	10.2%	8.5%	11.6%	8.0%
U.S. Small	2.1%	14.2%	-8.9%	8.2%	8.2%	11.2%	8.2%
U.S. Small Value	4.9%	13.9%	-6.6%	6.7%	7.0%	10.8%	8.0%
Int'l Large	2.9%	12.8%	-1.3%	6.5%	3.3%	4.9%	5.3%
Int'l Large Value	4.8%	7.7%	-4.9%	5.1%	1.0%	3.2%	4.3%
Int'l Small	2.5%	11.0%	-7.1%	5.5%	5.8%	7.4%	7.8%
Int'l Small Value	2.9%	9.1%	-7.9%	4.4%	4.9%	7.0%	7.8%
Emerging Mkts	1.9%	5.9%	-2.0%	6.0%	2.3%	3.4%	7.8%
World Stock (AC)	2.1%	15.9%	0.5%	9.4%	6.6%	8.4%	7.2%
<b>BONDS</b>							
TIPS	-1.4%	7.6%	7.1%	2.2%	2.5%	3.5%	3.9%
Short-Term Bonds	0.2%	2.5%	3.2%	1.4%	0.9%	0.6%	1.6%
Interm-Term Bonds	-0.4%	6.4%	8.2%	2.4%	2.7%	3.0%	3.6%
International Bonds	-0.4%	10.0%	12.7%	4.4%	5.2%	4.7%	4.9%
<b>ALTERNATIVES</b>							
Global REITs	2.7%	23.2%	16.4%	6.6%	8.5%	10.9%	7.9%
Commodities	1.2%	3.1%	-6.6%	-1.5%	-7.2%	-4.3%	-3.1%
Managed Futures	-4.5%	-0.4%	3.2%	-2.3%	2.4%	1.5%	5.2%
Reinsurance	1.7%	3.4%	1.8%	2.5%	3.7%	6.3%	7.0%

Source: Morningstar Direct. Indices used in above graphs: S&P 500 Index, U.S. Large Value-MSCI U.S. Prime Market Value Index, U.S. Small-Russell 2000 Index, U.S. Small Value-MSCI U.S. Small Value Index, Int'l Large-MSCI EAFE Index, Int'l Large Value-MSCI EAFE Value Index, Int'l Small-S&P EPAC Small Index, Int'l Small Value-S&P EPAC Small Value Index, Emerging Mkts-MSCI Emerging Markets Index, World Stock Index-MSCI All Country World IMI Index, TIPS-Barclays Gbl Infl Linked US TIPS Index, Short-Term Bonds-Ibbotson 1 Yr Treasury Const Mtg Index, Interm-Term Bonds-Barclays Interm-Term Govt/Credit Index, International Bonds-JPM GBI Global Ex US Hdq, Global REITs-S&P Global REIT Index, Commodities-Bloomberg Commodity Index, Managed Futures-Credit Suisse Mgd Futures Liquid Index, Reinsurance-SwissRe Global Cat Bond Index.

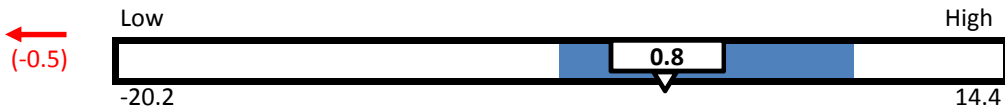
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## Economic Indicators

Leading Economic Index Year over Year Change (%)



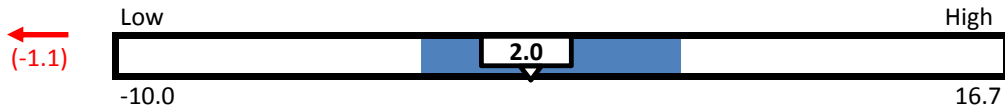
Unemployment (%)



Inflation CPI (YOY %)



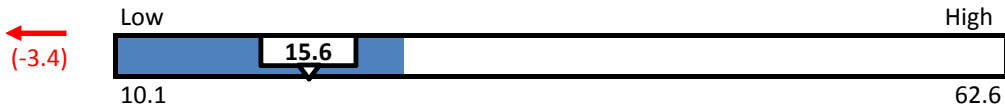
Real GDP Growth (%)



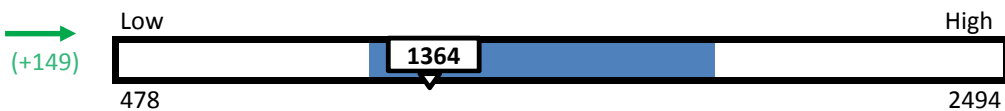
Consumer Confidence



VIX - Market Volatility





Housing Starts (000s)




10-year Treasury Yield (%)



 Typical range (within 1 standard deviation of the median)

 Current Value

 Historical Range

 Change in value since last month

 *\*See appendix for sources and data ranges*

## Appendix

### Leading Economic Index Year over Year Change (%)

The Leading Economic Index is composed of 10 indicators used to forecast the direction of the economy. A fall in the index over three consecutive months is seen as a sign of a recession. The value shown represents the 12-month change in the index level. *(Data Source: The Conference Board. Monthly data since 1/1/1959)*

### Unemployment

The unemployment rate measures the percentage of workers that are out of work in the U.S. labor force. *(Data Source: U.S. Bureau of Labor Statistics. Monthly data since 1/1/1948)*

### Inflation CPI (YOY)

The Consumer Price Index (CPI) measures the change in the price level for a broad basket of goods in the U.S. economy. The value shown represents the percent change in the index from a year ago. *(Data Source: U.S. Bureau of Labor Statistics. Monthly data since 1/1/1948)*

### Real GDP Growth

Real GDP Growth represents the change in the market value of all output in the U.S. economy. It is an annualized quarterly measure. *(Data Source: U.S. Bureau of Economic Analysis. Quarterly data since 4/1/1947)*

### Consumer Confidence

The Consumer Confidence Index measures the level of optimism among U.S. consumers on the economy and their overall financial situation. *(Data Source: The Conference Board. Monthly data since 1/31/1991)*

### VIX

The CBOE Volatility Index (VIX) measures the volatility of the S&P 500 index. An increase in the index level represents a spike in market volatility. Conversely, a decrease in the index represents a move towards stability. *(Data Source: Chicago Board Options Exchange. Daily data since 1/2/1990)*

### Housing Starts

The number of housing starts (new construction) in the U.S. each year. *(Data Source: U.S. Bureau of the Census. Monthly data since 1/1/1959)*

### 10-year Treasury

The annualized return that would be realized for holding a 10-year Treasury bond to maturity. The 10-year Treasury yield is the primary benchmark for measuring interest rate movements. *(Data Source: U.S. Board of Governors of the Federal Reserve System. Daily data since 1/2/1962)*

### Disclosure

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