September 2020: Market Review

September was a volatile month for global equities as stocks experienced their largest selloff since June. As Covid-19 cases have recently increased across the world, particularly in Europe, Covid-19 deaths have now surpassed one million. In additiion, Brexit tensions reignited this month as the U.K. and EU are in disagreement for a trade deal and their October 15 deadline is rapidly approaching. Uncertainty regarding the U.S. presidential election and whether further fiscal stimulus would be provided were headwinds for equities this month. Consequently, the S&P 500 Index fell -3.8% this month but is up +5.6% year-to-date. The Dow Jones Industrial Average lost -2.2% and is down -0.9% for the year. The NASDAQ Composite (-5.1%) experienced the largest contraction in September as technology stocks suffered some of the largest declines. However, the index is in the lead by a wide margin in 2020 (+25.3% year-to-date).

In the United States, stocks fell due to concerns about rising virus infections and fiscal policy delays. Personal income fell -2.7% in August from the month before, reflecting the decline in government aid. The final reading of second quarter real GDP was a decline of -31.4% annualized. Meanwhile, analysts estimate a significant rebound in the third quarter. The August unemployment rate fell to 8.4%, boosted by state reopenings and temporary hiring for the U.S. census. Initial jobless claims also declined, but remain elevated relative to pre-pandemic levels. An additional apprehension for investors was the passing of Ruth Bader Ginsburg as Congress is now focused on nominating a new justice to the Supreme Court prior to the November election instead of passing a new fiscal stimulus plan. Among commodities, WTI crude oil ended the month at $40 a barrel, down from $43 in August. Gold ended the month at $1,888, lower than its close of $1,968 last month.

Within domestic equities, growth outperformed relative to value in mid and small-cap stocks. Conversely, large-cap value stocks outperformed growth this month. Within large cap stocks, the Russell 1000 Growth Index, driven by losses in technology stocks, dropped -4.7% versus a -2.5% decrease for the Russell 1000 Value Index. In mid cap equities, the Russell Midcap Growth Index declined -1.4% for the month while the Russell Midcap Value Index lost -2.3%. In small cap stocks, the Russell 2000 Growth Index fell -2.1% in September while the Russell 2000 Value was down -4.7%. All growth indices have posted gains year-to-date while the value indices are still in negative territory.

Similarly, major international indices also posted losses during the month as many countries outside of Asia are experiencing a surge in Covid-19 virus cases. The MSCI EAFE Index depreciated -2.6% in September while the MSCI Europe Index dropped -3.3%. The MSCI Pacific Index also suffered losses, falling -1.2% during the month. The MSCI Emerging Markets Index declined -1.6% driven by declines in Brazil (-7.7%), Russia (-7.4%), and China (-2.9%).

U.S. treasury markets were mixed for the month as investors were risk-averse due to the volatility in the equity markets. The Federal Reserve Board released their dot plot, which showed a majority of the members expect rates to stay low through 2023. The yield on the 10-year Treasury closed at 0.69%, modestly lower than last month's close of 0.70%. The Bloomberg Barclays U.S. Aggregate Bond Index posted a modest decline of -0.1% for the month while the Bloomberg Barclays Treasury 20+ Year Index added +0.4%. The Bloomberg Barclays U.S. Treasury Index also appreciated, adding +0.1% in September. Investors had a risk-off approach this month, which was a headwind for riskier assets as the Bloomberg Barclays Corporate High Yield Bond Index dropped -1.0%.

Equities suffered losses this month as Covid-19 cases increased across the world while U.S. fiscal policy relief got tied up in election year politics. The uncertainty of additional U.S. fiscal stimulus, the potential for a second wave of Covid-19 cases, and a potentially close and contested U.S. presidential election are likely to increase market fears until the election results are finalized.