Keeping focused on your long-term goals

Market Commentary | Week ending September 3, 2021

Commentary provided by Mark Szycher, Vice President, Investment Specialist, AIG Retirement Services

Market Performance Snapshot* (Week ending September 3, 2021, Month of August and Year-to-Date)

- Dow Jones Industrial Average®: -0.2% | +1.2% | +15.6%
- S&P 500® Index: +0.6% | +2.9% | +20.7%
- NASDAQ Composite® Index: +1.5% | +4.0% | +19.2%
- Russell 2000® Index: +0.7% | +2.1%| +16.1%
- 10-year U.S. Treasury note yield: 1.33%
    - Up 2 basis points from 1.31% on August 27, 2021
    - Up 41 basis points from 0.92% on December 31, 2020
- Best-performing S&P 500 sector this week: Real Estate, +4.0%
- Weakest-performing S&P 500 sector this week: Financials, -2.5%
- Three best-performing S&P 500 sectors in August 2021:
    - Financials, +5.0%
    - Communication Services, +5.0%
    - Utilities, +3.5%
- Three weakest-performing S&P 500 sectors in August 2021:
    - Energy, -2.9%
    - Industrials, +0.9%
    - Consumer Staples, +1.3%

*Past performance is not a guarantee of future results.

August payroll report leads to mixed equities performance

Major equity indices split for the week – the S&P 500, NASDAQ Composite, and Russell 2000 all rose, while the Dow Jones Industrial Average fell – after August's payroll report revealed fewer new jobs than expected. The mixed start to the month followed an August in which the Dow Jones Industrial Average, S&P 500, and NASDAQ Composite all reached record territory. The 10-year Treasury yield rose slightly for the week.

- According to the Department of Labor's monthly payroll report released on Friday, the U.S. economy gained 235,000 jobs in August, significantly below the 720,000 jobs expected. The Delta variant likely played a role in limiting job gains – the leisure and hospitality sector added no net jobs and the retail sector lost jobs. On the positive side, the unemployment rate dropped to 5.2% from July's 5.4% and job gains in June and July were revised upward by 134,000.

Continued on next page

- Markets generally viewed the August payroll report as indicative of lingering economic uncertainty – a negative – though if labor market weakness persuades the Federal Reserve to delay tapering asset purchases, investors may view the extended monetary stimulus as a positive.
- The payroll report followed Thursday's report of new weekly unemployment claims at 340,000, the lowest level since the pandemic began. Enhanced federal jobless benefits are scheduled to end nationwide this month and observers will be keeping a close eye on how employment figures are affected.
- Home prices grew 18.6% during the year-over-year period ending in June, the largest such gain in the history of the S&P CoreLogic Case-Shiller national home price index. Rising prices may be affecting sales, as the National Association of Realtors reported pending home sales slipped 1.8% in July. Home price appreciation is one of the data points the Federal Reserve is watching as it determines the timing and pace of tapering asset purchases.
- August was a strong month for equities, with the broad-based S&P 500 rising for the seventh consecutive month. The tech-heavy NASDAQ was the best monthly performer, as lingering virus concerns pulled some investors back to major tech names – a trend that continued following the August employment report.
- Financials performed well in August, helped by modestly rising yields and the increasing likelihood of a reduction in Fed asset purchases. The 10-year Treasury yield closed the month at 1.31%, about 14 basis points higher than its recent lows, though still 30 basis points (0.3 percentage points) below earlier this summer.
- Energy was the only S&P 500 sector to end August in the red. The sector was battered by concerns about the Delta variant's impact on the global economic recovery. Oil prices declined 7.4% in August, but are still up more than 40% year-to-date.
- On Wednesday, major oil producing nations, referred to as OPEC+, decided to proceed with planned monthly output increases into 2022. The Biden Administration had been lobbying for OPEC+ to accelerate increases, but the consortium stated virus concerns cloud the oil demand forecast enough to preclude additional production.
- While Hurricane Ida left a path of destruction in Louisiana and the Northeast, market impacts were muted, with no lasting damage to energy production in the Gulf.

European economic activity grows, while China faces headwinds

New data from Europe and China show the two economic powerhouses experiencing shifting fortunes, with Europe heating up as China cools.

- IHS Markit's manufacturing Purchasing Managers' Index (PMI) for Europe was 61.4 in August, below July's reading but still well above the 50 level that serves as the dividing line between expansion and contraction. Supply chain shortages are beginning to translate into higher producer prices.
- Eurozone consumer price inflation reached 3.0% year-over-year in July, the highest reading in nearly ten years. European policymakers are asking the same question their U.S. counterparts have been asking for months: Is higher inflation transitory, related to virus recovery and global supply chain issues, or are more persistent forces at work? The European Central Bank meets September 9 and may provide fresh insight into its economic expectations and asset-purchase framework.
- China's manufacturing PMI barely remained in expansion territory in August, registering 50.1, while non-manufacturing PMI dropped unexpectedly sharply to 47.5 – the first contractionary reading since February 2020. Surging virus cases, supply chain issues, and soft demand have proved challenging. Given China's pivotal role in the global economy, markets will be monitoring conditions closely.

Keeping focused on your long-term goals

Washington decisions bear watching in September

September is setting up to be an active month in Washington, with several events investors will be watching.

- The Fed's next policy meeting will be held September 21-22. Following Chairman Jay Powell's recent indication that the Fed may start tapering asset purchases this year, markets will be listening closely for signals about pace and timing. The Fed will also release its latest U.S. economic projections.
- Expect more movement on Congress's budget and infrastructure bills in coming weeks. Spending and tax details will help clarify the potential economic and market impacts of Democrats' $3.5 trillion budget, while House approval of the Senate-passed infrastructure bill would start pumping an additional $550 billion into transportation, energy, and utility projects.
- Congress will also have to agree to fiscal year 2022 funding by September 30, either through the passage of new appropriations bills or a continuing resolution, which would carry current funding levels into the new year.
- And Congress will soon have to raise or suspend the debt limit. While there is no firm deadline to act, the Treasury will likely run out of options sometime this fall for paying the government's bills. Market disturbances become more likely as time passes awaiting action from Congress.

Final thoughts for investors

The S&P 500 rose nearly 8% from Memorial Day to Labor Day, as markets experienced both optimism about economic recovery and concerns about virus resurgences. As we head into autumn, a great deal of uncertainty remains, including the virus's ongoing and unpredictable effects on global economic growth and fiscal and monetary policy decisions in the U.S. and abroad. Shifts of leadership among market sectors and asset classes are likely. Speak with a financial professional to determine the best way to stay on track toward your long-term goals.

CLICK aig.com/RetirementServices CALL 1-888-569-7055 VISIT your financial professional

We see the future in you.℠ — AIG

VC 30955 (09/2021) J697901 EE