MARKET INSIGHTS

from Ziegler Capital Management

September 2020 Market Commentary

The S&P 500 broke its five-month positive streak with a –3.79% return in September. The index has returned 5.52% on a year-to-date basis and is up over 50% from the March 23rd lows. Small cap stocks, as measured by the Russell 2000, returned –3.27% in September, following positive returns in July and August. The Russell 2000 trails the S&P 500 a little over 14% on a year-to-date basis as of September 30 with a return of -8.59%.

COVID-19, social unrest, and the upcoming U.S. Presidential election continue to dominate headlines, as well as the Supreme Court nomination of Amy Coney Barrett to the seat that was held by Ruth Bader Ginsberg, who passed away in September. Most U.S. states have opened their economies with social distancing measures in place, but there is concern about a second wave of cases during the traditional flu season. With fall and winter approaching, businesses such as restaurants are looking to continue to adapt their business practices in light of spacing restrictions from COVID-19. Central Banks and Governments stimulus measures continue to help reduce the economic damage tied to the virus.

Second quarter GDP was revised to an annualized contraction of -31.4% after previous estimates of -31.7% and -32.9%. This remains the lowest reading since reporting began in 1947. The decline in second quarter GDP was heavily influenced by COVID-19, as stay-at-home orders issued in March and April were partially lifted in some areas of the country in May and June, and stimulus money was distributed to households and businesses. An annualized rise of 32.0% is projected in the third quarter by the Atlanta Federal Reserve as of September 25, an increase since their August 28 projection of

Returns by Sector

	S&P 500		Russell 2000	
Sector	YTD	Sep 2020	YTD	Sep 2020
Communication Services	8.60	-6.47	-20.22	-7.97
Consumer Discretionary	23.30	-3.66	4.53	-0.68
Consumer Staples	4.13	-1.47	2.55	-2.88
Energy	-48.13	-14.52	-54.16	-12.71
Financials	-20.26	-3.48	-29.38	-5.78
Health Care	5.03	-2.16	11.79	-0.44
Industrials	-4.63	-0.75	-5.65	-2.64
Information Technology	28.69	-5.36	0.37	-4.93
Materials	5.43	1.33	-16.85	-5.00
Real Estate	-6.81	-2.05	-22.82	-3.79
Utilities	-5.68	1.12	-18.76	-2.58
TOTAL RETURN	5.52%	-3.79%	-8.59%	-3.27%

Source: Bloomberg

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ABOUT ZCM MARKET INSIGHTS

A series that provides a glimpse of our internal thought process through current topics affecting our clients and colleagues.

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28.9%, as the U.S. further opens and the consumer is adapting to procedures in place as they go about their lives. The Conference Board has updated their GDP estimates for calendar year 2020 and now range from a -3.2% to a -3.8% annualized contraction versus previous estimates of -3.3% to -4.9%. They are also estimating 2021 GDP at 3.3% with the potential for a 6.9% annualized expansion if the economic activity that occurred between this May through August is sustained through the remainder of 2020 and carries into 2021. According to the National Bureau of Economic Research, the U.S. entered a recession in February and remains there.

According to the U.S. Bureau of Labor Statistics, employment increased by 661,000 jobs and the unemployment rate declined to 7.9% in September. The unemployment rate has declined for five consecutive months but remains 4.4% higher than in February. Labor market improvements reflect the continued resumption of economic activity that had been curtailed due to COVID-19. In September, notable job gains occurred in leisure and hospitality, in retail trade, in health care and social assistance, as well as in professional and business services. Employment in government declined over the month, mainly in state and local government education. The U.S. savings rate was 14.1% in August after peaking at a stunning 32.2% in April. As previously discussed, these continued elevated rates have the potential to be a significant economic growth driver or may be used for sustenance if needed.

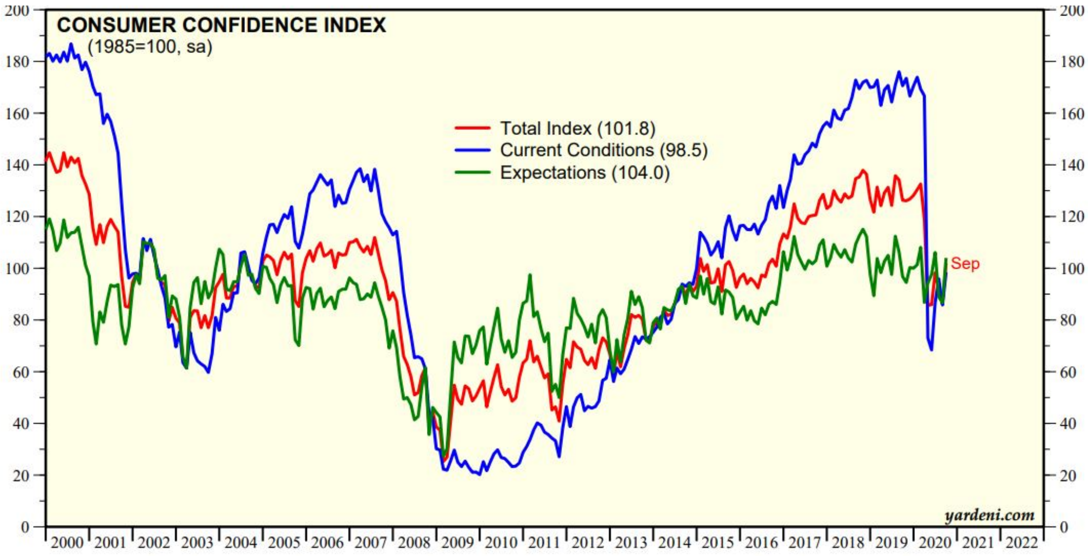
The Federal Reserve's September statement reiterated their commitment "to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals." They noted, "Financial conditions have improved in recent months, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses. The ongoing public health crisis will continue to weigh on economic activity, employment, and inflation in the near term, and poses considerable risks to the economic outlook over the medium term." The Committee kept the target range for the federal funds rate at zero to 0.25% and expects it will maintain this target range for the near future. The Federal Reserve said that it would maintain its U.S. Treasury and agency mortgage-backed securities open market purchases at least at the current pace to maintain smooth market functioning and accommodative financial conditions.

On a year-to-date basis, there remains a sizeable return disparity (over 14%) between large and small company stocks and between growth and value, however, this trend reversed in September. Small company stocks (as measured by the Russell 2000) outperformed large (as measured by the S&P 500) in September with a return of -3.27% versus -3.79%. The growth/value disparity flipped to favor value in September (the first time in 11 months), but remains significantly in favor of growth this year. On a year-to-date basis through September 30, large cap companies measured by the Russell 1000 Growth have returned 24.33% whereas the Russell 1000 Value has returned -11.58%. Similarly, in small cap stocks, the Russell 2000 Growth has returned 3.87% and the Russell 2000 Value has returned -21.55% on a year-to-date basis through September 30.

West Texas Intermediate (WTI) finished September at $39.87 a barrel, slightly less than August's close of $42.78 a barrel and significantly higher than April's close at $18.84 per barrel. Oil prices have stabilized around $40 a barrel since June. However, WTI is still down considerably after beginning the year at $61.06 per barrel.

Consumer Confidence sharply increased to 101.8 in September from 84.8 in August, stopping a two-month decline. The Present Situation Index (which is based on consumers' assessment of current business and labor market conditions) increased to 98.5 in September from 85.8 in August. The Expectations Index (based on consumers' short-term outlook for income, business, and labor market conditions) also increased in September to 104.0 from 86.6 in August. The consumer is responsible for approximately 70% of the U.S. economy.

Consumer Confidence & Sentiment



Source: The Conference Board.

The U.S. Bloomberg Barclays Aggregate Index returned 6.79% for the year-to-date period through September 30 including a return of -0.05% during September. There have been significant moves in the bond market this year with the 10-Year U.S. Treasury beginning the year at 1.92%, hitting an all-time low of 0.54% in July and ended September with a yield of 0.69%. Option Adjusted Spreads (as represented by the Bloomberg Barclays Corporate Index) continued to normalize and ended September at 136 basis points. They began the year at 93 basis points and peaked at 373 basis points on March 23 concurrent with the equity market lows.

The Volatility Index (VIX) ended September at 26.37, essentially equal to August's reading of 26.41 but is down considerably from the March 16 peak of 82.69. The VIX's long-term average is approximately 20. Historically, volatility rises rapidly and often declines slowly.

We actively monitor the capital markets and are prepared to respond accordingly. As we have stated in the past, we continue to advise our clients to adhere to their long-term plans and objectives.

ZIEGLER CAPITAL MANAGEMENT, LLC
70 West Madison Street | Suite 2400 | Chicago, Illinois | 60602 | www.zieglercap.com

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