



How Products Support Today's Market Views

MARKET INSIGHT · FALL EDITION

Annuities — Are you making the right risk reward trade?

Managed Accounts — Are you positioned for the future, Do you know your domestic exposure?

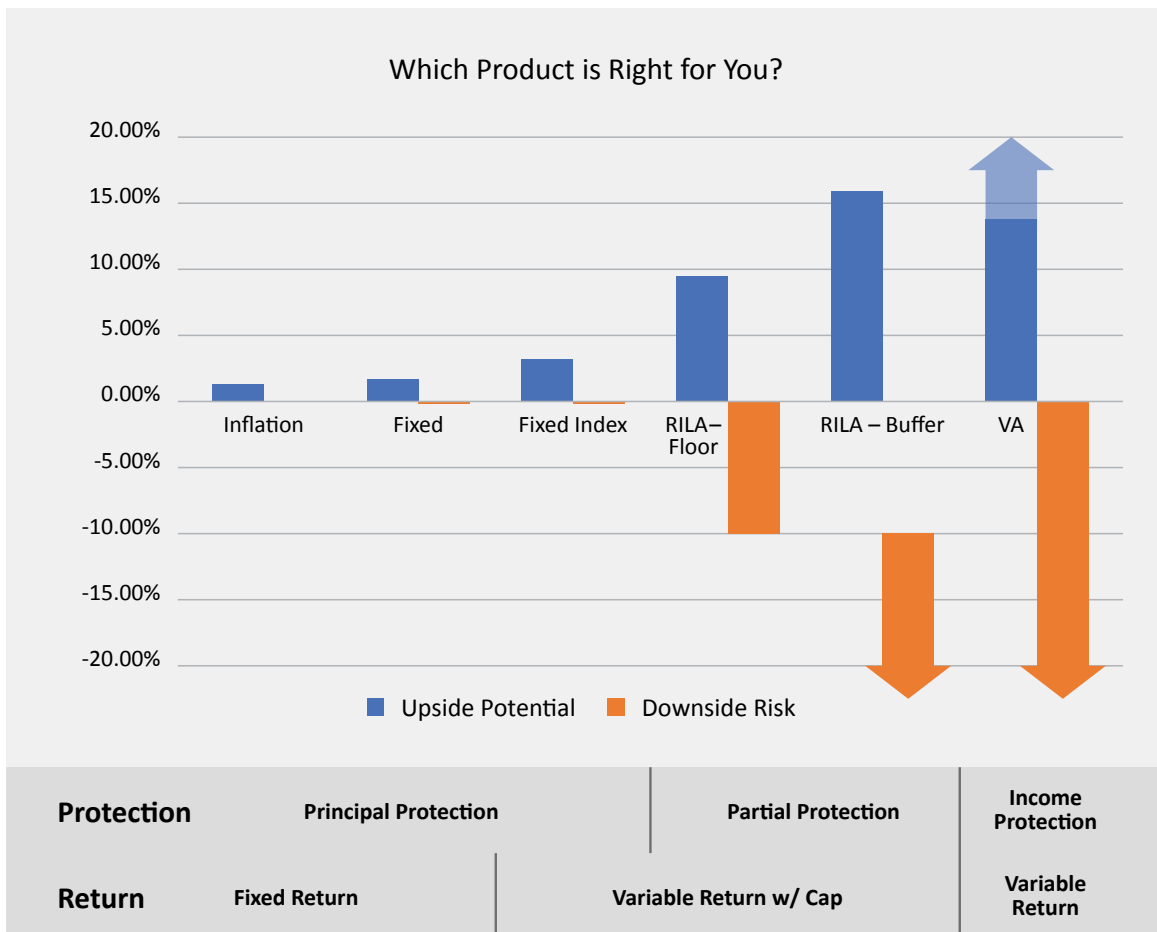
This Market Insights piece will go through some product ideas given certain market conditions. Your clients are being told what to do by their neighbor, the TV, the internet, or another advisor. Your clients deserve to hear from you; your clients deserve the best advice possible.

Risk vs Rates

LOOKING ACROSS PRODUCTS IS MORE IMPORTANT THAN EVER. ONE SIZE DOES NOT FIT ALL.

Bond yields are at all time lows, equity markets at all time highs and volatility comes in and out of the markets. Advisors have a duty to understand all their product types more than ever. Generating yield from a fixed income portfolio is a challenge, and we find the conversation is moving to longer durations and lower credit quality, which is a change to risk parameters (not always a good idea).

Clients looking for growth in the Fixed Index annuity structure may be moving to the Registered Index annuity structure, if they are giving up the floor structure to gain higher cap rates, depending on the client, this may be the best recommendation to achieve their goals or this may be outside of risk tolerances. Understanding the differences and tradeoffs and having this conversation with client is the best way to find the right recommendation. Often, we find competing priorities such as keeping up with inflation, achieving accumulation targets to meet goals, staying within agree upon risk parameters.



If you have not had a planning conversation with your client recently, in today's market, what are you waiting for? Understanding their updated risks and goals, will make you a better advisor.

Chart Disclosures: Returns based on average rates for industry for 5 year CDSC products (RILA 5 & 6 yr). FIA: 1 yr pt to pt on S&P 500 cap rate; RILA: 1 yr cap for 10% floor and 10% buffer; VA: is S&P 500 total return 5 yr annual return as over August; inflation rate: Labor Department's Bureau of Labor Statistics August Annual Rate; FIA and RILA show a cap rate not actual returns

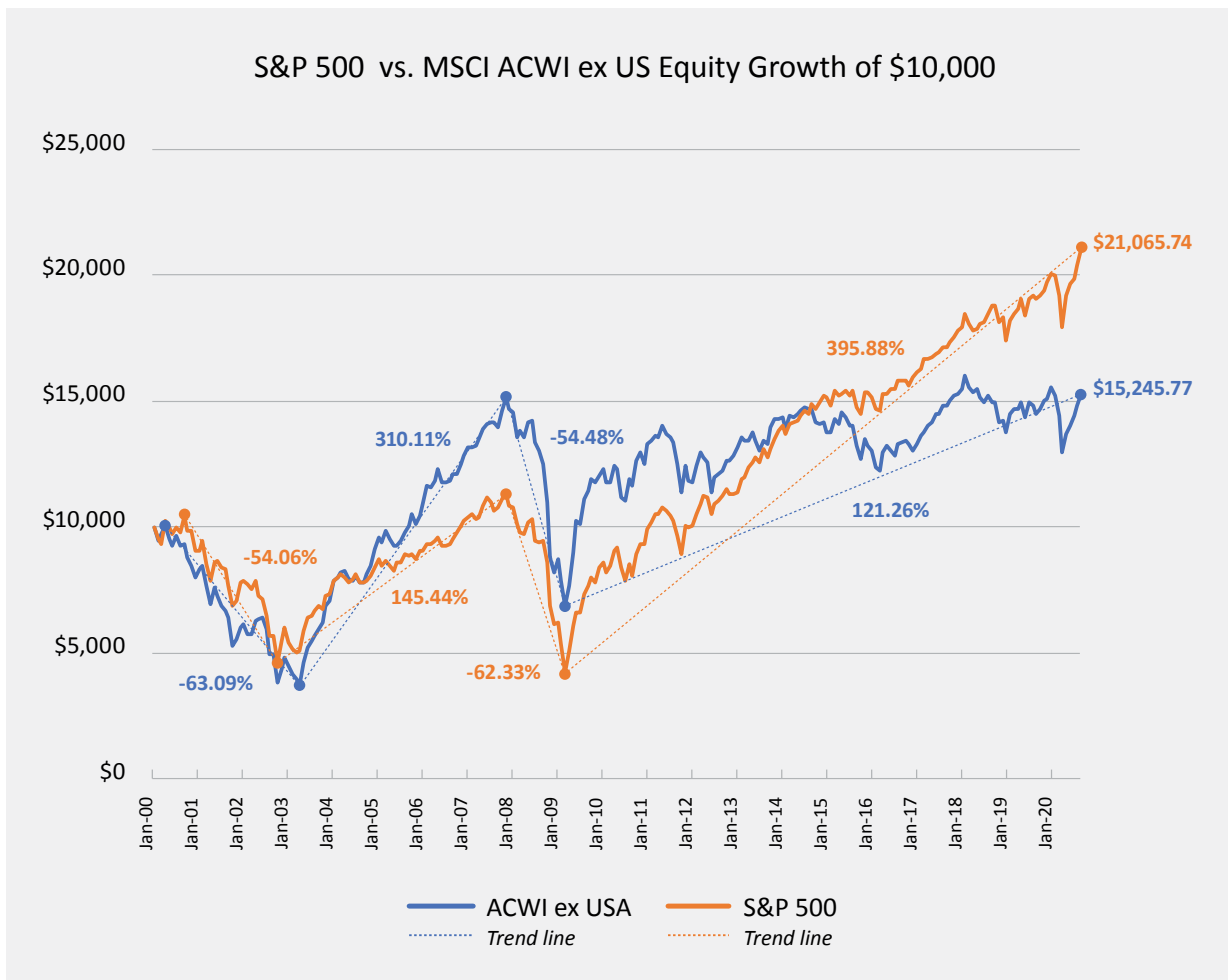
Where in the World to go Next

Foreign stocks have had a rough go of it compared with U.S. stocks over the past decade. Stocks in foreign developed markets and emerging markets have significantly underperformed U.S. shares for years, pushing U.S. stock valuations far above foreign valuations. Even last year, when stocks were strong worldwide, the average U.S.-stock mutual fund or exchange-traded fund rose 28%, outpacing the average international-stock fund’s 23% advance, according to Refinitiv Lipper data.

Now, the question is whether valuations, along with shifting global economic fundamentals, make foreign stocks an attractive investment—perhaps finally justifying the long-held advice that U.S. investors keep at least a portion of their portfolios in overseas shares or funds.

In the 10 years through June 30, the S&P 500 returned 13.99% annualized, including dividends. That compares with 4.97%, in dollar terms, for the MSCI World ex-USA Index of developed nations and 3.27%, in dollar terms, for the MSCI Emerging Markets Index.

The following graph shows the outperformance of the S&P 500 versus the MSCI ACWI ex U.S. from Jan 2000 to August 2020.



Source: S&P and MSCI

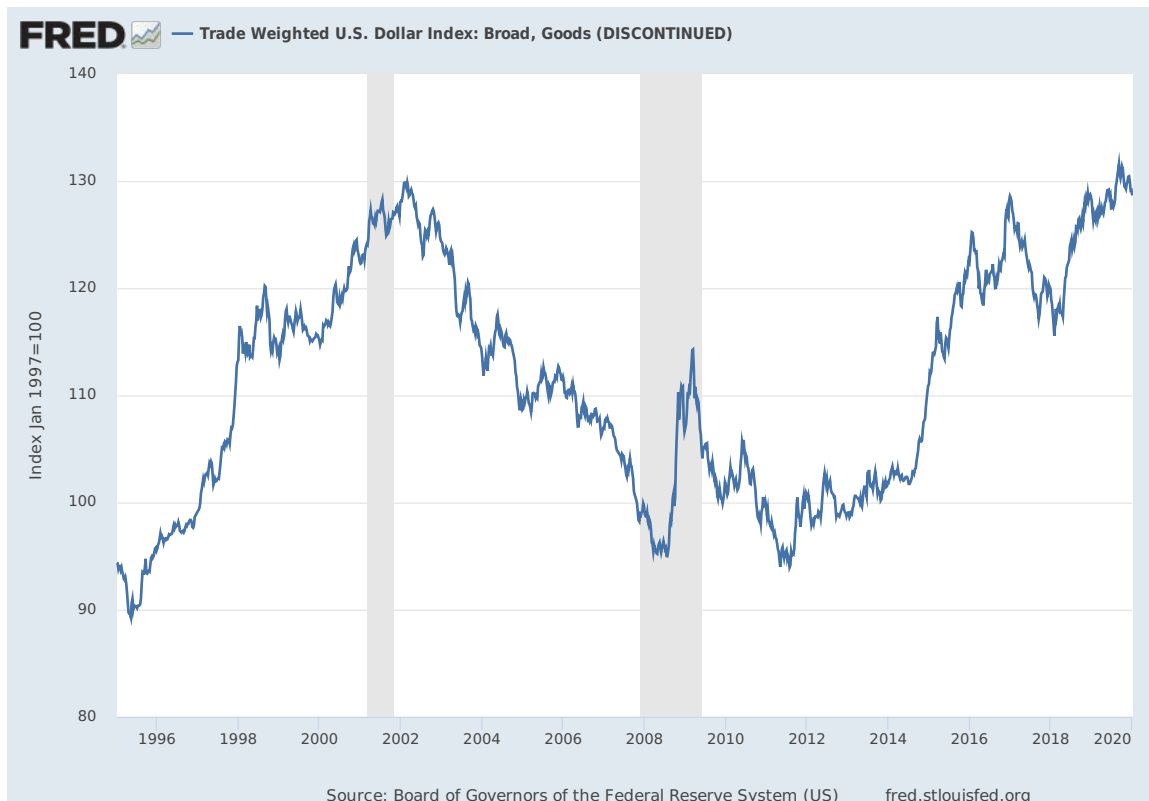
Where in the World to go Next *(continued)*

The outperformance has kept U.S. stock valuations at the top. As of Sep 2020, the forward price-earnings ratio, based on earnings estimates for the current fiscal year, totaled 23.8 for the S&P 500 and 16.5 for the MSCI All Country World ex-USA Index. Typically over time the current P/E ratio for the S&P 500 vs MSCI ACWI ex-U.S. Index will revert to the historical average of 88%.

	Forward P/E	20 Year Average	Dividend Yield	20 Year Average
S&P 500 Index	23.8x	15.4x	1.69%	2.1%
MSCI ACWI ex-U.S. Index	16.5x	13.5x	2.96%	3.1%
As a Percentage of the U.S.	69%	88%	175%	147%

Source: Yardeni Research, Inc. 9-3-2020 and MSCI World ex USA Index factsheet 8-31-2020

One issue investors face when venturing overseas is whether to hedge their currency exposure. That exposure helps when the dollar is falling—but hurts when the dollar is rising, as foreign holdings are worth a lesser amount in dollars terms. The following graph shows the value of the U.S. dollar in historical terms. If the U.S. Dollar weakens, that could be an additional benefit to international returns.



Source: Federal Reserve