


Weekly Market Commentary

OCTOBER 21, 2024


MARKET UPDATES

October 18, 2024: Recorded Leadership Discussion Featuring: Regions Chief Economist, Chief Investment Officer, and Chief Market Strategist.
October 25, 2024: Join the upcoming live Regions Market Update.


KEY OBSERVATIONS



A solid start to quarterly earnings season kept the uptrend in place for U.S. large cap indices last week as a handful of bellwether banks and brokers in the financial services sector set a positive tone for the remainder of the reporting period.




Economically sensitive sectors such as consumer discretionary, financial services, materials, and real estate, along with utilities outpaced growthy and defensive sectors as earnings releases and stronger economic data provided upside catalysts. This leadership profile allowed small- and mid-cap (SMid) indices to outperform on the week due to higher exposures to these sectors.




Treasury yields content to move sideways in the holiday-shortened trading week as fixed income investors digest economic data and attempt to distinguish signal from noise. The 10-year Treasury yield traded between 4% and 4.10% over the balance of the week, bringing some relative calm to the bond market. But calm could give way to a sizable move for yields – in either direction - in the coming weeks given the key economic and labor market datapoints to be released at month-end and early November.

WHAT WE'RE WATCHING



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Initial jobless claims for the week ended October 19 and continuing jobless claims for the week ended October 12 are released Wednesday. Initial claims are expected to come in at 240k, a notch below the prior week's reading of 241k. Continuing claims are expected to rise to 1,876k from 1,867k the prior week. Labor market data has been based off low survey response rates for some time now and has been rife with seasonal adjustment and weather-related noise so we hesitate to put much stock in the data rolling in but will be monitoring the trend in initial and continuing claims for continued signs of stabilization.



Tokyo (Japan) October Consumer Price Index (CPI) is released Thursday and is expected to rise 1.8% year over year, which would be a notable deceleration from 2.1% year over year in September. Of late, the Japanese yen has weakened relative to the U.S. dollar as the Bank of Japan has been able to talk down the prospect of additional policy tightening in the coming months, but even a modestly hotter CPI reading could bring the BoJ back into play and put upward pressure on the yen and downward pressure on Japanese equities.

	Price/Yield			Total Return (%)			
	10/18/2024	1 Week Ago	1 Month Ago	Year to Date	1 Year	3 Years	5 Years
S&P 500	5864.67	0.87	4.48	24.33	39.09	10.79	16.31
NASDAQ	18489.55	0.80	5.25	23.87	41.28	7.77	18.93
S&P Mid Cap 400	3198.21	1.43	4.22	16.36	34.27	6.72	12.30
S&P Small Cap 600	1435.16	1.65	2.53	10.39	32.11	3.36	10.35
MSCI World ex US	347.20	-0.26	2.36	12.18	26.21	2.52	6.84
MSCI EM	1155.12	-0.37	6.30	15.33	27.29	-1.13	4.97
Bloomberg U.S. Aggregate	4.51	0.05	-1.67	2.98	12.54	-1.71	0.08
Bloomberg Corporate	4.93	0.07	-1.34	4.04	15.83	-1.43	0.94
Bloomberg U.S.High Yield	7.16	0.34	0.30	7.86	17.64	3.11	4.64
Bloomberg EM USD Aggregate	6.41	0.23	-0.43	7.47	18.70	-0.19	1.18
Bloomberg Global Aggregate	3.47	0.00	-2.03	1.34	11.34	-3.68	-1.31
Bloomberg Municipal Bond	3.43	0.23	-0.25	1.95	10.91	0.02	1.30

Source: Bloomberg (3- and 5-Year Returns Annualized)

Price/Yield

	10/18/2024	1 Week Ago	1 Month Ago	12/31/2023	1 Year Ago	3 Years Ago	5 Years Ago
SOFR (yield)	4.85	4.81	5.33	5.38	5.30	0.05	1.88
30 Year Mortgage (average rate)	6.96	6.99	6.60	6.99	8.00	3.17	3.78
2 Year Treasury (yield)	3.95	3.96	3.62	4.25	5.22	0.43	1.57
10 Year Treasury (yield)	4.08	4.10	3.70	3.88	4.91	1.60	1.75
30 Year Treasury (yield)	4.39	4.41	4.02	4.03	4.99	2.03	2.25
WTI Crude (closing price)	69.22	75.56	70.91	71.65	88.32	82.44	53.78
Gold (NYM \$/oz)	2713.70	2657.60	2574.90	2071.80	1955.30	1764.80	1488.20

Source: Bloomberg (3- and 5-Year Returns Annualized)

WHAT HAPPENED LAST WEEK?

Stocks:

Positive Momentum For U.S. Large-Caps Persists But Small-Caps Fare Better As Cyclical Outperform; Chinese Stocks Extend Losses With The MSCI China Index Now Negative In October.

• **Signs Of Life In Transportation Stocks A Welcome Development.** Through September, the S&P Transportation Index ETF (IYT), which includes a broader set of stocks than the bellwether Dow Jones Transportation Average, has exposure to airlines, railroads, ridesharing providers, and shipping companies, among others, had sat out the rally, gaining an underwhelming 5% and significantly lagging both the S&P 500 industrials sector (+18.9%) and the S&P 500 (+20.8%) in the process. But the tables have turned somewhat in October as the IYT ETF has risen 2.8% month-to-date and has outpaced the S&P 500's 1.7% return and the 2.6% gain out of the broader industrials sector. Most encouragingly, strength out of the transportation industry sub-group in recent weeks has been fairly broad based, but security selection remains important even in an industry group or segment of the market with such strong momentum. Seasoned investors and followers of Dow Theory, which states that rallies/new highs in the Dow Jones Industrial Average should be 'confirmed' by rallies/new highs in the Dow Jones Transportation Average, should view the recent catch-up in the transports positively as it highlights how capital is continuing to rotate between sectors in search of relative value. It's also another sign of a healthy market, and potentially points toward some positive economic surprises on the horizon.

• **Big Bank, Broker Earnings Set A Positive Tone For Earnings Season.** Quarterly reporting season is still in the early innings, but the 'Big 4' banks – J.P. Morgan Chase, Bank of America, Citigroup, and Wells Fargo – along with Goldman Sachs and Morgan Stanley, were some of the first companies out of the gate to post results. On balance, these releases have provided investors with ample reasons to remain constructive on both the health of the U.S. economy and the staying power of the equity bull market.

• **Strength In Economically Sensitive Sectors Translates Into Gains For Small And Mid Cap Indices.** Last week's 1.6% return out of the S&P Small Cap 600 index was a byproduct of promising earnings and guidance out of the financial services and materials sectors which, on balance, suggested an improving economic backdrop could still be in the cards. Factor tilts to growth and value are historically the strongest

in smaller capitalization stocks, a trend that materialized last week as the value-led rally put the S&P Small Cap Value Indices at the top of the list of relative performers on the week. It's too early in this reporting season to be taking a victory lap but small caps at least started out on the right foot and served to lift animal spirits for cyclicals. From a top-down perspective, the retail sales beat last Thursday again called into question the narrative that the U.S. economy was set to slow in 3Q and perhaps 4Q, thereby weighing on earnings for U.S.-focused companies in the small and mid-cap areas. Upcoming economic data is likely to be fraught with seasonal adjustment and weather-related noise in the coming month(s) which could make the data appear weaker than it truly is, the inverse of what we've seen over the prior month where the data has, broadly speaking, appeared to be stronger than it is. This backdrop could create opportunities for those with cash to deploy able to take a longer-term view.

• **Easy Come, Easy Go As Rally In Chinese Stocks Fades, Dragging Down The MSCI EM Index.** The MSCI China index extended recent losses last week posting its second straight weekly decline of 4% or more, despite late-week moves out of the People's Bank of China (PBoC) to support markets as economic growth metrics disappointed. For the better part of the week disappointment around stimulus and renewed tension on chip restrictions from the U.S. government were top of mind, being cited as a reason for declining demand on the earnings call of Netherland-based ASML that fell 13.9% on the week. The broader MSCI Emerging Markets Index couldn't escape chip restriction concerns and China stimulus skepticism but experienced a far less painful 0.3% decline last week as weakness in China was offset by upbeat earnings from Taiwan Semiconductor, the largest stock in the MSCI EM benchmark. Taiwan's most influential stock posted profit margin growth that topped street expectations at 54% and raised guidance for capex that sent the stock higher by 9.8% on Thursday alone. On balance, regulation is a wildcard for international chip makers more broadly and while we think ultimately the Chinese stimulus will succumb to pressure of hitting economic growth targets, it likely to be a volatile path of upside and downside surprises.

