

Weekly Market Commentary

NOVEMBER 4, 2024


MARKET UPDATES

November 1, 2024: Recorded Leadership Discussion Featuring: Regions Chief Economist, Chief Investment Officer, and Chief Market Strategist.
November 8, 2024: Join the upcoming live Regions Market Update.


KEY OBSERVATIONS



U.S. large-cap stocks traded lower over the balance of the week as portfolio de-risking amid underwhelming guidance out of some of the 'Magnificent 7,' along with the continued rise in U.S. Treasury yields, made investors hesitant to put capital to work prior to the election. Surprisingly, small and mid-cap (SMid) stocks fared better as economically sensitive sectors such as consumer discretionary and financial services, which carry larger weights in SMid indices, outperformed as investors rotated within and out of the 'Mag 7.'




Earnings releases out of five of the 'Magnificent 7' last week were a mixed bag as those with lofty expectations were punished for what was viewed as lackluster sales guidance and/or continued elevated spending on AI-related projects, while recent laggards with low expectations saw their share price rise as results proved better than feared. The days of a 'rising tide lifts all ships' within the 'Mag 7' could be behind us, setting up a better backdrop for active managers to pick and choose relative winners and losers.




Treasury yields continued to climb on the week despite decent demand for new issues at auction as buyers remained hesitant to shift out of shorter-term instruments in advance of the election. Surprisingly, even the October nonfarm payrolls report which showed just 12k jobs were created during the month, failed to put a defensive bid under long-dated U.S. Treasuries.


WHAT WE'RE WATCHING



The Institute for Supply Management (ISM) Services Purchasing Managers Index (PMI) for October is released Tuesday and is expected to come in at 53.8 which would be a downshift from a 54.9 reading in September. A reading above 50 indicates growth in the Services sector of the U.S. economy, while a reading below 50 indicates contraction.



The Federal Open Market Committee (FOMC) kicks off its two-day meeting Wednesday and Chair Jerome Powell's post-meeting press conference addressing the Committee's decision will take place at 1:30 central time on Thursday after the meeting concludes. Fed funds futures currently place a 97% probability on a 25-basis point rate cut and our base case also calls for a quarter-point cut.



The University of Michigan's Consumer Sentiment Index for November is released Friday with a reading of 71.0 expected, which would be a modest improvement from 70.5 in October.

	Price/Yield			Total Return (%)			
	11/1/2024	1 Week Ago	1 Month Ago	Year to Date	1 Year	3 Years	5 Years
S&P 500	5728.80	-1.35	0.42	21.47	34.60	9.04	15.14
NASDAQ	18239.92	-1.50	1.77	22.21	38.23	6.08	17.75
S&P Mid Cap 400	3102.85	-0.13	0.24	12.92	29.67	4.47	11.09
S&P Small Cap 600	1389.31	-0.08	-0.44	6.89	26.57	1.29	8.95
MSCI World ex US	336.85	-1.10	-4.29	8.83	21.25	1.46	5.70
MSCI EM	1122.28	-1.21	-5.60	11.94	23.53	-1.33	3.84
Bloomberg U.S. Aggregate	4.79	-0.61	-3.01	1.40	8.33	-2.37	-0.29
Bloomberg Corporate	5.23	-0.68	-3.04	2.26	11.00	-2.24	0.48
Bloomberg U.S.High Yield	7.31	0.02	-0.45	7.48	14.76	2.99	4.53
Bloomberg EM USD Aggregate	6.60	-0.39	-1.78	6.37	15.11	-0.52	0.89
Bloomberg Global Aggregate	3.67	-0.54	-3.13	-0.14	7.92	-4.21	-1.68
Bloomberg Municipal Bond	3.66	0.00	-1.73	0.83	8.59	-0.31	1.06

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

Price/Yield

	11/1/2024	1 Week Ago	1 Month Ago	12/31/2023	1 Year Ago	3 Years Ago	5 Years Ago
SOFR (yield)	4.86	4.83	5.05	5.38	5.32	0.05	1.58
30 Year Mortgage (average rate)	7.28	7.21	6.70	6.99	8.02	3.17	3.75
2 Year Treasury (yield)	4.21	4.10	3.60	4.25	4.94	0.50	1.55
10 Year Treasury (yield)	4.38	4.24	3.73	3.88	4.73	1.56	1.71
30 Year Treasury (yield)	4.58	4.50	4.07	4.03	4.93	1.96	2.19
WTI Crude (closing price)	69.49	71.78	69.83	71.65	80.44	84.05	56.20
Gold (NYM \$/oz)	2749.20	2740.90	2667.30	2071.80	1987.50	1795.80	1511.40

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

WHAT HAPPENED LAST WEEK?

Stocks:

‘Magnificent 7’ Earnings A Mixed Bag, Spurring A Rotation Into Laggards And Out Of Leaders; Small Caps A Surprisingly Defensive Segment On The Week; A Bounce Back Week For Japanese Stocks As Political Uncertainty Subsides.

• **Economically Sensitive Sectors Outperforming As Treasury Yields Continue Their Ascent.** The S&P 500 held up relatively well last week considering the magnitude of the selloffs in some of the largest index constituents in the communication services (META), and information technology (MSFT) sectors as ‘Mag 7’ members Amazon and Alphabet, along with select names in the financial services, industrials, and materials sectors buoyed the broader market.

• **‘Mag 7’ Underperformers With Less Lofty Expectations Perform Best On The Week.** Five of the ‘Magnificent 7’ members posted quarterly results last week, and while all five topped the consensus estimate for sales and earnings, those with underperforming stock prices and low expectations rallied while recent outperformers with lofty expectations saw their share prices give back gains. Alphabet (Google) was first out of the gate last week to post results after the stock had underperformed the S&P 500 by a large margin since the end of June, and the company topped the consensus estimate for sales and earnings while issuing solid guidance and saw its share price rise 3.6% on the week as a result. Microsoft had also lagged the S&P 500 since mid-year and the stock fell another 4.1% last week despite sales and earnings beating estimates as investors focused on the prospect of slowing growth for the company’s Azure cloud platform in the coming quarters. Meta Platforms (Facebook) has been a market leader since mid-year and entered quarterly reporting season with lofty expectations, but cap ex or spending guidance was higher than hoped and the stock ultimately fell just 1% on the week. For its part, Amazon posted results after market close on Thursday, and similar to Alphabet, was a beneficiary of less lofty expectations as the stock had gone nowhere in recent month but responded positively and rallied 5.3% on the week after beating on sales and earnings and issuing guidance roughly in-line with analyst estimates. Apple’s earnings release moved the share price very little as the stock had traded down in recent weeks in the lead-up to its report, and mixed signals surrounding iPhone 16 demand led to a muted share price reaction and the stock closed the week lower by 3.6%. All told, we saw a lot to like in these earnings releases and this cohort of stocks remains a cornerstone for the broader market into 2025, but stock selection amongst ‘Mag 7’ members will likely matter more in the coming year as the ‘rising tide lifts all ships’ backdrop for these stocks in recent years may become more of a stock pickers paradise.

• **Small-Caps Play Defense On The Week.** Large-cap stocks coasted through October before experiencing a modest decline last week, but small-cap stocks proved to be defensive amid weakness in large caps as the S&P 600 closed the week basically flat while the S&P 500 fell 1.3%. The outperformance is less surprising when you dig into the sector makeup of these indices as the financial services, consumer discretionary, and industrial sectors which carry larger weights in the small-cap index led the charge, and outperformance was more tied to earnings-specific stories than what we’ve seen in the last few weeks which appeared to be tied to macro or technical strategies trading at the index level. Last week’s price action in small caps was encouraging, but as we often note, earnings season moves slower for smaller companies and investors shouldn’t make too many generalizations as performance dispersion for stocks in the same sector can differ greatly from one earnings season to another. Though it was difficult to see in prices of small caps, we found the lower employment cost index and higher real personal spending to be interesting developments last week that may allow smaller cap companies to attract and retain employees without breaking the bank and negatively impacting profit margins.

• **Japanese Stocks Rise Despite New Political Regime.** After political uncertainty rattled markets the week prior, Japanese markets pared losses for the month and finished last week higher by 0.8% in dollar terms. That gain stands in contrast to the broader MSCI All-Country World index (ACWI) which fell by 1.2% and comes as a surprise after markets fretted over potential change in Japan’s ruling party which came to fruition last week, but just knowing the result appears to have been more important to market participants than which party is ultimately in charge. Election volatility also kept the Bank of Japan (BoJ) on ice for this meeting as the Liberal Democratic Party’s loss of control and uncertainty surrounding the forthcoming U.S. election were cited as reasons to keep rates steady in Japan. Recent price action in Japan also acknowledges that new government officials will face the same headwinds as the previous officials, specifically, finding a way to spur growth into a weaker economic backdrop while navigating precarious monetary policy and currency scenarios. From the currency perspective, the yen moved sideways on the week before landing near 152¥ to the U.S. dollar, a level that should support the country’s export-heavy industrials and semiconductor segments which carry sizable weight in the index.

Bonds:

Treasury Yields End The Week Higher Despite Decent Demand For Newly Issued 5- And 7-Year Notes At Auction; September Inflation Data Still 'Sticky;' U.K. Budget Proposal Puts Upward Pressure On Sovereign Bond Yields Abroad.

• **Decent Demand For Newly Issued Treasuries At Auction Not Enough To Stem The Tide Of Rising Yields.** Last week was a busy one on the Treasury auction front as a sizable amount of newly issued 2-, 5-, and 7-year notes hit the market. On Monday, Treasury came to market with \$69B of 2-year notes and \$70B of 5-year notes. This was a big ask for market participants to take down just shy of \$140B of issuance in one day, and with the election just over one-week away to boot, so it should have been of little surprise that these issues were met with varying demand. The dealer community was forced to take down just shy of 18% of the 2-year issue, well above the recent average, and just over 14% of the 5-year issue, a figure in-line with recent auctions. The 7-year auction on Tuesday was met by better demand with dealers inventorying around 7.5% of the \$44B issued, a figure well below recent auction averages. Our takeaway from these auction results is that solid demand for the longer duration 5- and 7-year issues still wasn't enough to stem the rise in yields across the Treasury curve as investors appeared to be focused on economic resiliency, 'sticky' inflation data that materialized in ISM Prices Paid this week, and political uncertainty and chose to continue to jettison positions in long-dated Treasuries in the lead-up to the election.

• **Treasury Yields Anchored Despite 'Noisy' October Nonfarm Payrolls Report.** The October nonfarm payrolls report released Friday showed just 12k jobs were created during the month, below the 100k consensus estimate. As we anticipated, the initial read on payrolls growth last month was tamped down due to negative impacts from recent hurricanes, the ongoing Boeing machinist union strike, and a reversal of seasonal adjustment factors that flattered the September report which came in well above the consensus estimate. The unemployment rate remained static month over month at 4.1%, in-line with expectations, but average hourly earnings rose 0.4% month over month, a notch above the 0.3% expected. The labor market is not as weak as the October payrolls report would imply, nor is it as strong as the September release led market participants to believe it was, and we continue to see the labor market as normalizing and for the most part stable, providing a solid underpinning for consumer spending and GDP growth. From a monetary policy perspective, we don't expect the Federal Open Market Committee (FOMC) to take

much away from the payrolls report when it meets this week given the number of one-off factors negatively impacting the data, and we still see the Committee cutting the funds rate by another 25-basis points.

• **High Yield Extends Its Weekly Win Streak Over 'Core' Bonds.** The Bloomberg High Yield Index was far from bullet proof last week as it dipped into negative territory early in the week before ending the week flat and outperforming the Bloomberg Aggregate Bond Index's -0.6% return. Last week marks the 8th consecutive week of outperformance for the high yield index relative to the Agg, pointing toward the added diversification benefit credit can provide as yields have moved sharply higher in over that time frame. High yield's recent relative win streak captures the strategic advantage in holding below investment grade credit, even as credit spreads remain narrow as spreads found room to tighten further in each of the last four weeks. That said, flows into high yield funds were negative in the final three weeks of the month, a signal that either investors are reallocating capital out on the Treasury curve to take advantage of higher yields or are battenning down the hatches a bit and de-risking in the lead-up to the election.

• **U.K. Gilt Yields Rise As Budget Proposal Includes Increased Issuance, Offsetting Potential Austerity Measures.** Government officials in the U.K. unveiled a new budget outline that prompted yields on the country's sovereign debt higher as it included tax increases that were more than offset by plans for higher spending. The overall expected increase in debt issuance had 10-year gilt yields rise to a high of 4.45%, a new high for the year, before ending the week a basis point below that level. Versus other developed countries across Europe, the U.K. is plagued by considerably higher financing costs, especially relative to peers France and Germany whose 10-year notes trade at yields of just 3.12% and 2.37% respectively. In fact, U.K. gilts carry the highest yield of any AAA sovereign issuer by at least one major rating agency, an indication that markets are taking that rating with a grain of salt at this point. Ballooning government deficits have been a going concern for investors, both overseas and domestically, and by tracking these happenings we gain a better understanding of potential outcomes. This time around, we saw moderate pushback on the budget proposal from bond investors, a far different outcome versus 2022's market meltdown which stemmed from short-lived Prime Minister Liz Truss unveiling her budget proposal which led to a parabolic move in gilt yields and caused chaos at U.K. pension plans holding sizable slugs of government debt, but the rise in gilt yields last week still sends up a yellow flag on the impact increased debt burdens could have on other developed nations, including our own.



Investment, Insurance and Annuity Products:			
AreNotFDICInsured	AreNotaDeposit	MayGoDowninValue	AreNotBankGuaranteed
AreNotInsuredbyAnyFederalGovernmentAgency			
AreNotaConditionofAnyBankingActivity			

its services or products. The information and material contained herein is provided solely for general information purposes. Regions does not make any warranty or representation relating to the accuracy, completeness or timeliness of any information contained in the newsletter and shall not be liable for any damages of any kind relating to such information nor as to the legal, regulatory, financial or tax implications of the matters referred herein. This material is not intended to be investment advice nor is this information intended as an offer or solicitation for the purchase or sale of any security or other financial instrument. Any opinions expressed herein are given in good faith, are subject to change without notice, and are only current as of the stated date of their issue. Regions Asset Management is a business group within Regions Bank that provides investment management services to customers of Regions Bank. Employees of Regions Asset Management may have positions in securities or their derivatives that may be mentioned in this report or in their personal accounts. Additionally, affiliated companies may hold positions in the mentioned companies in their portfolios or strategies. The companies mentioned specifically are sample companies, noted for illustrative purposes only. The mention of the companies should not be construed as a recommendation to buy, hold or sell positions in your investment portfolio. Neither Regions Bank nor Regions Asset Management (collectively, "Regions") are registered municipal advisors nor provide advice to municipal entities or obligated persons with respect to municipal financial products or the issuance of municipal securities (including regarding the structure, timing, terms and similar matters concerning municipal financial products or municipal securities issuances) or engage in the solicitation of municipal entities or obligated persons for such services. With respect to this presentation and any other information, materials or communications provided by Regions, (a) Regions is not recommending an action to any municipal entity or obligated person, (b) Regions is not acting as an advisor to any municipal entity or obligated person and does not owe a fiduciary duty pursuant to Section 15B of the Securities Exchange Act of 1934 to any municipal entity or obligated person with respect to such presentation, information, materials or communications, (c) Regions is acting for its own interests, and (d) you should discuss this presentation and any such other information, materials or communications with any and all internal and external advisors and experts that you deem appropriate before acting on this presentation or any such other information, materials or communications. Source: Bloomberg Index Services Limited. BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively "Bloomberg"). BARCLAYS® is a trademark and service mark of Barclays Bank Plc (collectively with its affiliates, "Barclays"), used under license. Bloomberg or Bloomberg's licensors, including Barclays, own all proprietary rights in the Bloomberg Barclays Indices. Neither Bloomberg nor Barclays approves or endorses this material, or guarantees the accuracy or completeness of any information herein, or makes any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, neither shall have any liability or responsibility for injury or damages arising in connection therewith. Source: Bloomberg Index Services Limited. BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively "Bloomberg"). BARCLAYS® is a trademark and service mark of Barclays Bank Plc (collectively with its affiliates, "Barclays"), used under license. Bloomberg or Bloomberg's licensors, including Barclays, own all proprietary rights in the Bloomberg Barclays Indices. Neither Bloomberg nor Barclays approves or endorses this material, or guarantees the accuracy or completeness of any information herein, or makes any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, neither shall have any liability or responsibility for injury or damages arising in connection therewith.

© 2024 Regions Bank. All Rights Reserved. The content and any portion of this newsletter is for personal use only and may not be reprinted, sold or redistributed without the written consent of Regions Bank. Regions, the Regions logo and other Regions marks are trademarks of Regions Bank. The names and marks of other companies or their services or products may be the trademarks of their owners and are used only to identify such companies or their services or products and not to indicate endorsement or sponsorship of Regions or its services or products. The information and material contained herein is provided solely for general information purposes. Regions does not make any warranty or representation relating to the accuracy, completeness or timeliness of any information contained in the newsletter and shall not be liable for any damages of any kind relating to such information nor as to the legal, regulatory, financial or tax implications of the matters referred herein. This material is not intended to be investment advice nor is this information intended as an offer or solicitation for the purchase or sale of any security or other financial instrument. Any opinions expressed herein are given in good faith, are subject to change without notice, and are only current as of the stated date of their issue. Regions Asset Management is a business group within Regions Bank that provides investment management services to customers of Regions Bank. Employees of Regions Asset Management may have positions in securities or their derivatives that may be mentioned in this report or in their personal accounts. Additionally, affiliated companies may hold positions in the mentioned companies in their portfolios or strategies. The companies mentioned specifically are sample companies, noted for illustrative purposes only. The mention of the companies should not be construed as a recommendation to buy, hold or sell positions in your investment portfolio. Neither Regions Bank nor Regions Asset Management (collectively, "Regions") are registered municipal advisors nor provide advice to municipal entities or obligated persons with respect to municipal financial products or the issuance of municipal securities (including regarding the structure, timing, terms and similar matters concerning municipal financial products or municipal securities issuances) or engage in the solicitation of municipal entities or obligated persons for such services. With respect to this presentation and any other information, materials or communications provided by Regions, (a) Regions is not recommending an action to any municipal entity or obligated person, (b) Regions is not acting as an advisor to any municipal entity or obligated person and does not owe a fiduciary duty pursuant to Section 15B of the Securities Exchange Act of 1934 to any municipal entity or obligated person with respect to such presentation, information, materials or communications, (c) Regions is acting for its own interests, and (d) you should discuss this presentation and any such other information, materials or communications with any and all internal and external advisors and experts that you deem appropriate before acting on this presentation or any such other information, materials or communications. Source: Bloomberg Index Services Limited. BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively "Bloomberg"). BARCLAYS® is a trademark and service mark of Barclays Bank Plc (collectively with its affiliates, "Barclays"), used under license. Bloomberg or Bloomberg's licensors, including Barclays, own all proprietary rights in the Bloomberg Barclays Indices. Neither Bloomberg nor Barclays approves or endorses this material, or guarantees the accuracy or completeness of any information herein, or makes any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, neither shall have any liability or responsibility for injury or damages arising in connection therewith.