MONTHLY MARKET UPDATE

October 2024

Key market drivers in October included Chinese stimulus measures, mediocre third quarter corporate earnings results, and an economic calendar that fell victim to severe weather disruptions but ultimately didn't change the no/soft landing narrative. Global risk assets rallied in the first half of October but weakened in the back half amidst a commensurate rise in interest rates. The economic backdrop stayed healthy as resilient U.S. growth continued to be supportive for risk assets but also in shaping monetary policy to slow down the pace of rate cuts. With no scheduled FOMC meeting during October, policy makers sought to guide markets away from more aggressive rate cut expectations during the month which had both interest rate and currency implications. Tensions between Iran and Israel stayed in the tit-for-tat non-escalatory lane but overall sentiment remained cautious in October in anticipation of the November elections, details on Chinese stimulus, and corporate earnings results.

The S&P 500 broke its run of five consecutive positive months by closing October down 0.9% but left year to date gains still at an impressive 21%. International developed (-5.4%) and emerging (-4.3%) markets both lost more ground thanks in large part to a strong rally in the USD of over 3%. Market internals were similar to September where growth outperformed value and larger companies outperformed smaller companies.

Bond markets lost the majority of their gains year to date as interest rates drifted meaningfully higher with 10yr yields moving from 3.81% to 4.28% (+47bps) and 2yr yields from 3.66% to 4.16% (+50bps). One of the most notable shifts in the bond market was the rapid move toward inversion of the 3mo/10yr slope which narrowed from -1.57% in August to -0.92% by the end of the third quarter and compressed to -0.36% by the end of October, an indication that bond markets don't see as significant a need for Fed rate cuts as just a few months ago. The 2yr/10yr slope which returned to positive territory in late August stayed relatively flat at +0.12% at the month-end of October. The USD strengthened in October due to the resilient U.S. economy and accordingly, bond markets moving to price in fewer rate cuts in the coming months.

Market Anecdotes

- China's stimulus details in October outlined CNY 10t bond issuance over three years, 60% to boost local government balance sheets and 40% to buy raw land and housing. Meanwhile, anti-corruption crackdowns are rising.
- An FT article made note that the strong U.S. economy backed by the consumer carries record high income gaps where the top 20% account for 40% of all spending and the bottom 40% account for 20% of all spending.
- Another article in the FT highlighted rising risks of re-defaulting instances in CRE following the unprecedented 'extend and pretend' trend of loan modifications by U.S. banks in response to commercial real estate stress.
- The recent BoA survey data has seen the likelihood of a 'hard landing' near its lowest level of the past 18 months with expectations of a 'no landing' scenario increasing notably and a clear consensus expectation of a 'soft landing.'
- Torsten Slok notes that while higher market interest rates would suggest higher corporate debt servicing costs, companies taking steps to lock in low QE and post pandemic rates have seen non-financial corporate net interest payments decrease to near record low levels.
- A long-term look at home affordability from Bianco Research reminded investors that, while first time home buyer affordability today is clearly an outlier, the ultra-low interest rate QE era may not be the best relative comparison.
- Pricing across Morningstar high yield distressed bond data reinforces the idea that credit markets do not see reason for concern based on trends in the numbers, size, and quality of issuers in the space.

Economic Release Highlights

- October payrolls missed sharply with only 12,000 reported jobs, well below the spot forecast of 125,000 and range (57,000 - 180,000). The unemployment rate stayed at 4.1%. Average hourly earnings were generally in line with estimates at 0.4% MoM and 4% YoY.

- The Employment Cost Index (ECI) for Q3 rose 0.8%, slightly below consensus estimate of 1% but within the forecast range (0.7% to 1.0%). YoY ECI rose 3.9%, less than the 4.1% forecast.

- PCE inflation saw YoY headline (2.1% vs 2.1%) and core (2.7 vs 2.6%) both generally inline with forecasts. MoM headline (0.2%) and core (0.3%) both came in right at the spot forecast.

- Personal income growth of 0.3% increased from August's 0.2% but came in slightly below the 0.4% estimate while Personal Consumption Expenditures of 0.5% beat the 0.4% estimate.

- The initial 3Q U.S. GDP estimate came in slightly below forecast (2.8% vs 3.0%) while PCE exceeded (3.7% vs 3.0%) and came in above the high end of the forecast range of 2.0%-3.6%.

- The CPI report came in a bit warmer than consensus forecast with YoY readings of Headline (2.4% vs 2.3%) and Core (3.3% vs 3.2%) and MoM readings of Headline (0.2% vs 0.1%) and Core (0.3% vs 0.2%).

- Headline PPI rose YoY (1.8% vs 1.6%) and MoM (0% vs 0.2%) while core readings were up YoY (2.0% vs 2.7%) and MoM (0.2% vs 0.2%).

- October U.S. flash PMI (C,M,S) registered (54.3, 47.8, 55.3), in line with the consensus forecast and prior month levels.

- October Eurozone flash PMI (C,M,S) registered (49.7, 45.9, 51.2), meeting expectations but the composite survey remained below the 50 expansionary mark.

- The NFIB Small Business Optimism Index was mostly flat versus the prior month at 91.5.

- The JOLT Survey registered 7.443M job openings, well under the spot consensus of 7.900M and the forecast range of 7.8M to 8.0M.

- Retail Sales came in above consensus forecasts for Headline (0.4% vs 0.3%), ex-Vehicles (0.5% vs 0.1%), and ex-Vehicles & Gas (0.7% vs 0.3%).

- The final UofM Consumer Sentiment Index was revised up from 69.0 to 70.5 while one-year inflation expectations declined from 2.9% to 2.7%.

- The Consumer Confidence Index in October jumped from 98.7 to 108.7, well above the spot forecast of 99.1 and consensus range of 97.7 to 100.5.

- New Home Sales registered 738k, slightly above the consensus forecast (718k) and prior month (709k). Existing Home Sales came in relatively in line with the spot forecast (3.84M vs 3.90M), -1% MoM and -3.7% YoY. Pending Home Sales jumped 7.4% MoM, well above the 1.0% expectation with the index climbing from 70.6 to 75.8.

- Housing Starts (1.354M vs 1.400M) and Permits (1.428M vs 1.500M) both came in slightly below their respective consensus forecasts.

- The Housing Market Index for October registered 43, slightly above the expected forecast of 42. The Case-Shiller Home Price Index rose 0.4% MoM in August, up 5.2% YoY.

Outlook

Our intermediate term outlook for equity markets remained neutral to target in October, following the upgrade in September. Recent geopolitical developments, which we'll address in greater detail in the November overview, come with increased probabilities of higher deficit/pro-growth fiscal policy, ramped up protectionist trade policy, a different direction for foreign policy, and potentially renewed inflationary pressures. While protectionist trade policy (tariffs/trade wars) come with increased financial market and inflation risks, pro-business deregulation and lower taxes should translate to higher growth and a stronger USD over the short term. We are maintaining overweight recommendations on value and small/mid cap U.S. stocks acknowledging the market rotation seen in the third quarter. Additionally, we are favoring U.S. stocks over international stocks due to higher domestic growth and interest rate expectations over the forecast horizon.

From a duration standpoint, while acknowledging an upside bias on rates due to the improved growth outlook and potential inflationary pressures, we are maintaining a neutral duration stance at this time due to potentially disruptive trade and foreign policies in the coming months. Our view on corporate credit risk has marginally improved in sympathy with our view on the overall growth backdrop.

Equity	**Level**	**1 Mo**	**3 Mo**	**YTD**	**1 Yr**	**3 Yr**
Dow Jones	41763	(1.26)	2.72	12.50	28.85	7.42
NASDAQ	18095	(0.49)	3.00	21.24	41.87	6.14
S&P 500	5705	(0.91)	3.66	20.97	38.02	9.08
Russell 1000 Growth		(0.33)	4.63	24.14	43.77	8.84
Russell 1000 Value		(1.10)	2.96	15.40	30.98	6.85
Russell 2000		(1.44)	(2.24)	9.56	34.07	(0.05)
Russell 3000		(0.73)	3.52	19.75	37.86	7.64
MSCI EAFE		(5.42)	(1.40)	7.34	23.58	3.22
MSCI Emg Mkts		(4.32)	3.79	12.17	25.95	(0.99)
Fixed Income		**1 Mo**	**3 Mo**	**YTD**	**1 Yr**	**3 Yr**
US Aggregate		(2.48)	0.25	1.86	10.55	(2.20)
High Yield		(0.55)	2.68	7.44	16.47	2.95
Municipal		(1.46)	0.30	0.81	9.70	(0.30)

Commodities	**10/31/24**	**8/31/24**	**5/31/24**	**2/29/24**
Oil (WTI)	71.83	74.52	77.97	79.22
Gold	2734.20	2513.40	2348.30	2048.10

Currencies	**10/31/24**	**8/31/24**	**5/31/24**	**2/29/24**
USD/Euro ($/€)	1.09	1.11	1.09	1.08
USD/GBP ($/£)	1.29	1.31	1.27	1.26
Yen/USD (¥/$)	152.35	145.95	157.19	149.90

Treasury Rates	**10/31/24**	**8/31/24**	**5/31/24**	**2/29/24**
3 Month	4.64	5.21	5.46	5.45
2 Year	4.16	3.91	4.89	4.64
5 Year	4.15	3.71	4.52	4.26
10 Year	4.28	3.91	4.51	4.25
30 Year	4.47	4.20	4.65	4.38

Style Returns

MTD

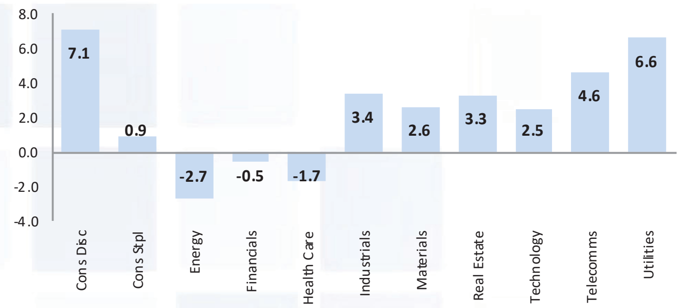
	V	B	G
L	-1.10	-0.70	-0.33
M	-1.26	-0.54	1.75
S	-1.56	-1.44	-1.33

YTD

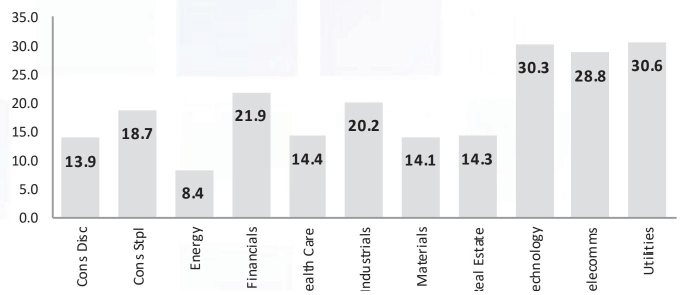
	V	B	G
L	15.40	20.33	24.14
M	13.63	14.02	14.88
S	7.51	9.56	11.72

S&P 500 Sector Returns

MTD



YTD



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