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MARKET MINUTE

OCTOBER REVIEW 2024

This month's Market Minute reflects the views of our Research Team and was composed by
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OVERVIEW

In mid-September the Fed ushered in a 50-basis point rate cut, as well as signaled two additional 25-basis point cuts in Q4 and an additional reduction of 100 basis point in 2025. However, in our view, October did not provide the economic data to support relaxing monetary policy to such a degree. The U.S. jobs report blew out expectations, with the U.S. economy creating 254k new jobs in September—expectations were for 150k—and positive upward revisions to both August (159k) and July (144k). The unemployment rate moved down to 4.1% from August's 4.2% level, and average hourly wages increased to 4.0% year-over year.[1] An employed consumer loves to spend, as reflected in retail sales which came in better than expected in September as sales improved +0.4% month-over-month (MoM)—expectations were for only +0.3%—and excluding auto and gas, sales were up even more at +0.7% MoM. As such, it was not surprising that the US economy expanded by +2.8% (annualized rate) in Q3, down only slightly from Q2's 3.0% figure. Economic growth was buoyed by strong consumer spending on both goods and services, which rose collectively by +3.7% during the quarter.[1]

Fixed income investors got nervous about the robust data and reversed course in October, driving the 10-year Treasury yield higher to 4.29%, a level not seen since early July[1]. Equity markets saw a strong economy and favorable earnings reports, which continued to push equities to new highs until the month's end that finished on a sour note and wiped out all the gains from earlier in the month.

U.S. EQUITY MARKETS As of October 31, 2024

U.S. EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
DJIA	-1.3%	-1.3%	12.5%	28.9%
S&P 500	-0.9%	-0.9%	21.0%	38.0%
Russell 2000	-1.4%	-1.4%	9.6%	34.1%
Russell 1000 Growth	-0.3%	-0.3%	24.1%	43.8%
Russell 1000 Value	-1.1%	-1.1%	15.4%	30.9%

Despite notching two record highs in the first three weeks of the month, markets sold off in the final days of October and finished lower. The S&P 500 lost -0.9% and US small caps (Russell 2000 Index) lost -1.4%. Equity markets seemed to struggle to find a direction ahead of the US election, despite strong economic numbers and generally positive earnings reports for Q3. Growth stocks (Russell 1000 Growth Index), which had gained nearly 3.0% at one point in October, gave it all a back and finished October -0.3%. Value stocks (Russell 1000 Value Index), which lagged growth stocks much of October finished the month down -1.1%.

While there was not much difference in returns at the index level between large and small caps or growth and value names, there was a wide dispersion of returns at the sector level. Traditionally defensive sectors, such as Healthcare and Consumer Staples, both finished lower for the month (S&P 500 Consumer Staple sub-Index -2.8% and S&P 500 Healthcare sub-Index -4.6%). But Financials and Communication Services finished the month positively, buoyed by strong earnings from some of their largest constituents (S&P 500 Financials sub-Index +2.7% and S&P 500 Communication Services sub-Index +1.9%).

INTERNATIONAL EQUITY As of October 31 2024

INTERNATIONAL EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
MSCI ACWI ex USA	-4.9%	-4.9%	8.6%	24.3%
MSCI EAFE	-5.4%	-5.4%	6.8%	23.0%
MSCI Emerging Markets	-4.4%	-4.4%	11.7%	25.3%
MSCI EAFE Small Cap	-6.3%	-6.3%	4.1%	23.0%

Outside of the US, equity returns were challenged for the month. Developed international stocks (MSCI EAFE Index) lost -5.4% while emerging market equities (MSCI EM Index) were down -4.4%. Non-US equity returns were impeded, in part, by the US dollar which strengthened during the quarter, but were also weighed down by Chinese equities (MSCI China Index -5.9%). Chinese equities surged over 25% in the final weeks of September alone after the Chinese government announced a slew of fiscal and monetary stimulus measures designed to bolster the economy and improve business and consumer sentiment. Initially, investors welcomed the news and Chinese equities surged but, in recent weeks, skepticism has been building that Beijing will struggle to fully implement the policies announced and markets have given back a portion of late September and early October gains.

FIXED INCOME As of October 31, 2024

FIXED INCOME MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
Bloomberg US Aggregate	-2.5%	-2.5%	1.9%	10.5%
Boomberg Global Aggregate	-3.4%	-3.4%	0.1%	9.5%
Bloomberg US High Yield	-0.5%	-0.5%	7.4%	16.5%
JPM Emerging Market Bond	-1.8%	-1.8%	6.1%	17.6%
Bloomberg Muni	-1.5%	-1.5%	0.8%	9.7%

Three months of positive momentum all but vanished in October as interest rates spiked higher from 2-years to 30-years. As such, performance was abysmal with the Bloomberg Aggregate index down -2.48%. On a bit of a positive note, the high-yield market reflected the optimism of equity investors as spreads continued to tighten relative to U.S. Treasuries, though high-yield returns were overwhelmed by the rise in rates and posted negative returns (Bloomberg U.S. Corporate High Yield index -0.54%).

The 10-year U.S. Treasury yield has been trading in a sideways fashion between roughly 3.50% on the low end and 5.00% at the high end for over two years. In this volatile environment, earning coupon income has been the source of return and enhancing income generation has been the source of outperformance. We do not foresee this trend changing in the near term.

CONCLUSION & OUTLOOK

One should not be surprised to see equity and fixed income investors respond differently to positive economic data. Equity investors see an economic environment that will continue to drive solid corporate earnings growth and meet market expectations. Additionally, the growth supports broadening the rally beyond the Magnificent 7—in short, all boats have the potential to rise in this economy. Fixed income investors had visions of the Fed easing monetary policy with interest rates significantly declining; however, such solid and stable growth portends the Fed cutting rates slower than markets may have anticipated and interest rates staying higher for longer. If fixed income investors do not drive rates too high (+5.0% on the 10-year U.S. Treasury) positive earnings reports should continue to support equity markets.

Hanging over investors' heads is a U.S. presidential election, and given the likely close nature of the vote, a winner is unlikely to be fully known on Wednesday morning (November 6th). That said, election year noise may continue throughout all of November.

SOURCES

1 *Bloomberg LP*