OBSERVATIONS

- Markets were mixed last week ahead of the US election with small caps (Russell 2000) leading the way and gaining +0.1%, while the S&P 500 lost -1.4% and the yield of the 10-year Treasury moved higher by +15 basis points to end the week at 4.39%.[1]
- Housing prices continued to soften with the S&P CoreLogic National Price Index falling to 4.2% year-over-year (YoY) in August, down from July's 4.8% YoY reading.[1]
- Job openings declined in September to 7.4 million openings down from August's 7.9 million openings and the number of quits fell to 3.1 million—down -14.6% YoY and the lowest number of quits since Aug-2020.[1]
- Initial unemployment claims declined more than expected last week to 216k down -12k from the week prior—overall initial claims remain low and are on par with claim numbers from the same week last year.[1]
- The October jobs report underwhelmed, however, with only +12k new jobs created and downward revisions to both August—revised down by half to 78k—and September—revised down -31k to 231k. The unemployment rate remained steady at 4.1%, but the labor force participation rate fell marginally to 62.6% from September's 62.7% level. While October saw the fewest jobs created over the past three years, this report was almost certainly impacted by the back-to-back hurricanes, and upward (positive) revisions in the coming months would not be surprising.[1]
- The US economy expanded by +2.8% (annualized rate) 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]
- The Fed's preferred inflation measure, core-PCE (which excludes food and energy), came in as expected for September at 2.7% YoY—unchanged from the August figure. Headline PCE, which includes food and energy, declined to 2.1% YoY from August's 2.3% level.[1]

EXPECTATIONS

- On the cusp of the US election as well as the Fed's next policy meeting, markets have priced in a 98.5% probability that the Fed cuts interest rates by -25bps at its meeting this Thursday. The probability of a November rate cut was as low as 80% earlier in the month, but drifted higher in the final weeks of October and surged to nearly 100% in the aftermath of the weak October jobs report (see Observations above).[1]
- It was a significant week for earnings announcements including several of the largest companies within the S&P 500 and as of Friday over 70% of the index has reported. So far about 75% of firms have reported a positive earnings surprise, which is below the 5-year average (77%), but on par with the 10-year average (75%). Overall, the blended earnings growth for Q3 stands at 5.1%, which is about 1.5 percentage-points higher than last week.[2]

ONE MORE THOUGHT: October Few Places to Hide[1]

There were few brights spots in October. Despite notching two record highs in the first three weeks of the month, the S&P 500 sold off in the final days of October and finished lower for the month. The S&P 500 lost -0.9%, while US mid caps (Russell Midcap Index) lost -0.5% 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

[1] *Bloomberg LP, 11/1/2024*
[2] *FactSet 11/1/2024*

point in October, gave it all back in the final week of trading and finished October -0.3%. Value stocks (Russell 1000 Value Index), which lagged growth stocks for most 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%) such as Wells Fargo (Financials) and Netflix (Communication Services). There was also little good news outside of the US as international equities were also challenged for the month. Developed international stocks (MSCI EAFE Index) lost -5.4% while emerging market equities (MSCI EM Index) were down -4.5%. 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 was equally troubled in October as interest rates backed up and duration weighed on fixed income returns. The Bloomberg US Aggregate Bond Index lost -2.5% in October, while the shorter duration Bloomberg US Corporate High Yield Index lost -0.5%. Only the short duration leveraged loan market (Credit Suisse Leveraged Loan Index +0.9%) posted any gains for fixed income markets in October.

CHART OF THE WEEK

MARKET	2023	Q1-2024	Q2-2024	Q3-2024	Oct-2024	YTD	Trend
S&P 500	26.3%	10.6%	4.3%	5.9%	-0.9%	21.0%	
Russell 2000	16.9%	5.2%	-3.3%	9.3%	-1.4%	9.6%	
MSCI EAFE	18.2%	5.8%	-0.4%	7.3%	-5.4%	6.9%	
MSCI EM	9.8%	2.4%	5.0%	8.7%	-4.5%	11.7%	
MSCI China	-11.2%	-2.2%	7.1%	23.5%	-5.9%	21.7%	
MSCI ACWI	22.8%	8.3%	3.0%	6.7%	-2.2%	16.5%	
Bloomberg US Agg Bond	5.5%	-0.8%	0.1%	5.2%	-2.5%	1.9%	
Bloomberg High Yield Bond	13.5%	1.5%	1.1%	5.3%	-0.5%	7.4%	
Bloomberg Muni Bond	6.4%	-0.4%	0.0%	2.7%	-1.5%	0.8%	
Credit Suisse Leveraged Loan	13.0%	2.5%	1.9%	2.1%	0.9%	7.5%	

Source: Clearstead, Bloomberg LP 11/1/2024

Aneet Deshpande, CFA
Chief Investment Officer

Dan Meges
Chief Economist & Head of Global Equity