Week in Review

Equity Markets:

The S&P 500 snapped a four-week skid and finished in the green by 0.5% following a strong rally on Friday to close out the week. The markets saw volatility throughout the week as investors digested multiple employment reports and economic health data. Despite the jump in yields, the tech-heavy Large Cap Growth style outperformed last week, finishing up 2.1% and extending its spread over Large Cap Value to 27.2% so far this year[1]. Large Value finished the week down 1.5%% and remains essentially flat on the year[1]. Oil saw a 9% weekly decline last week. Only a few weeks ago oil was at $94 per barrel and the markets saw the potential impacts on upcoming inflation numbers; which in turn could cement the Fed's hawkish narrative.

This week marks the beginning of the final earnings season of the year. Eleven S&P 500 companies will report this week but will be highlighted by the start of the major banks on Friday. Earnings are expected to grow by 1.3% in the third quarter[2]. This is slightly down from the 1.6% estimate on October 1st.

Fixed Income Markets:

Yields continued their climb higher on the heels of positive job reports. The 10-yr Treasury Yield finished the week at 4.79%. The 30-yr Treasury briefly topped 5%; which marks the first time it has seen that level since 2007[3]. The 2's/10's spread continued to close as the yield curve continued its steepening process out of inversion. This steepening process is due in large part because long rates are increasing more rapidly than short rates, unlike some instances where the short rate decreases more rapidly, which typically accompanies the Federal Reserve's easing of monetary policy during a recession. The current spread stands at -0.30%.

Economic:

The labor market remains resilient despite some disparity amongst reports last week. The ADP private payrolls report showed that the private sector added 89,000 jobs in September, well below the 160,000 estimated by Dow Jones[4]. The JOLTS report, which runs a month behind, reported that August had 9.61m job openings, up sharply from 8.8m in July. September nonfarm payrolls rose 3360,000, well above the Dow Jones estimate of 170,000[5]. The ISM Manufacturing PMI rose to 49 in September, up from 47.6 last month but still remains in contraction territory. The Services PMI decreased slightly to 53.6 from the previous month's 54.5 reading. Consumer Credit debt unexpectedly fell in August by $15.6B as student loan repayments have begun. All of the decline was in the non-revolving credit category; which includes auto and student loans[6].

Looking Ahead

Equity Markets:

With the lack of earnings news, the equity markets have been driven heavily by macro events and rates. This will change as of the end of this week. Major banks will begin reporting on Friday, and we will be paying close attention to the impact of higher rates on their balance sheets. The higher rate environment has caused a few banks to close their doors and upcoming earnings releases will be timely as we have experienced a recent surge in rates. Our focus will be on liquidity ratios, capital ratios, and management commentary on the plans to navigate any future challenges.

If earnings come in, at a minimum, in line with estimates it will mark the first quarter with earnings growth following three consecutive growth quarters. Earnings estimates have stabilized following nearly a year of downward revisions, so low expectations could potentially add some challenges to this earnings season. We believe investors should have broad diversification and remain committed to target allocations. Sentiment has reversed to extremely negative and is bullish from a contrarian perspective. And there are many fronts that could be tailwinds for the market through the end of the year.

Fixed Income Markets:

Following the upbeat labor market reports last week, the Fed Funds Futures Market was little changed on their probability for the outcome at the next FOMC meeting. The futures market is pricing an 84% probability that policymakers will keep rates unchanged during their meeting in November[7]. But, the string of positive reports has pushed potential rate cuts further out into 2024. Following the Nonfarm Payroll Report, the futures market had cuts coming as soon as May but pushed a potential cut out to June.

The FOMC's narrative has been hawkish for over a year now and the discussion around the time at a rate level may be more important than the absolute rate. We believe the market now pricing in the potential for policymakers to keep the policy rate at a restrictive level gives them more latitude on how high they have to raise it. Remarks from Fed officials continue to indicate the potential for another rate increase this year, but in our opinion that will have negligible impact on the rate structure other than briefly in the days around the decision. We remain to have a positive long-term view of the fixed-income markets. Investors that had to move down the maturity or credit range in the previous cycle no longer have that problem.

Economic:

Inflation reports will start coming in this week for the month of September. Wednesday, the Producer Price Index will be released; followed by the Consumer Price Index on Thursday. The preliminary University of Michigan Consumer Sentiment Index will be released on Friday and will be timely as student repayments will go into full effect for the first time in over three years. The meeting minutes from September's FOMC policy meeting will be released on Wednesday and will likely garner a few headlines.

**** *See Important Disclosures on following page*

Sources:

1)JP Morgan
https://am.jpmorgan.com/content/dam/jpm-am-aem/americas/us/en/insights/market-insights/wmr/weekly_market_recap.pdf

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https://lipperalpha.refinitiv.com/wp-content/uploads/2023/10/TRPR_82221_718.pdf

3)Federal Reserve of St. Louis, FRED
https://fred.stlouisfed.org/series/DGS30

4) CNBC
https://www.cnbc.com/2023/10/04/private-payrolls-rose-89000-in-september-much-fewer-than-expected-adp-says.html

5) CNBC
https://www.cnbc.com/2023/10/06/jobs-report-september-2023.html#:~:text=Nonfarm%20payrolls%20increased%20by%20336%2C000,to%20the%20forecast%20for%203.7%25.

6) Market Watch
https://www.marketwatch.com/story/consumer-credit-posts-biggest-drop-since-pandemic-618c41f1

7) CME Group
https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html

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