

▲ What We're Watching:

- ▲ 'Magnificent 7' earnings take center stage in the coming week with Alphabet (Google), Amazon, Apple, Meta Platforms (Facebook), and Microsoft all set to post quarterly results.
- ▲ October Personal Consumption Expenditure, the FOMC's preferred inflation gauge, is released on Thursday. Headline PCE is expected to rise 0.2% month over month and 2.1% year over year, while core PCE, which is more closely monitored by policymakers, is expected to rise 0.3% month over month and 2.6% year over year.
- ▲ The October Nonfarm Payrolls Report is released on Friday with 110k jobs expected to have been created during the month, which would be well below reported payrolls growth of 254k jobs in September. Notably, seasonal adjustment factors contributed to outsized payrolls growth in September, and with these factors set to reverse in October, the potential for October payrolls to miss on the downside, potentially by a sizable number, is high in our view. A surprise could lead to a bid in Treasury bonds and an abrupt move lower in yields.

▲ Key Observations:

- ▲ U.S. large cap stocks ended the week little changed as earnings releases and Treasury yields encountering resistance were enough to generate a half-hearted bid for the biggest and safest stocks in the lead-up to the election. U.S. small cap stocks didn't fare as well as economically sensitive sectors such as financial services, industrials, and materials lagged on the week and hold larger weights within small and mid-cap indices. Five of the 'Magnificent 7' cohort of stocks report quarterly results this coming week and could set the tone for stocks into November.
- ▲ International developed and emerging market stocks lagged U.S. large caps on the week as weakness out of India, Japan, and South Korea, among other countries, weighed on indices tied to markets abroad.
- ▲ Treasury yields across the curve rose over the balance of last week, but the 10-year yield, specifically, encountered resistance around the 4.25% level as the back-up in yields appeared to finally spur buyers to step in on Thursday and Friday. The October Nonfarm Payrolls Report set to be released this coming Friday could go a long way toward deciding the near-term path forward for the 10-year yield. A weak number well shy of the consensus estimate could lead to a re-test of the 4% level, while a much stronger than expected number could lead to a decisive break above the 4.20% ceiling of resistance and bring 4.45%-4.50% into play in the coming weeks.

	Price/Yield			Total Return (%)			
	10/25/2024	1 Week Ago	1 Month Ago	Year to Date	1 Year	3 Years	5 Years
S&P 500	5808.12	-0.96	1.59	23.14	42.43	9.98	15.80
NASDAQ	18518.61	0.16	2.44	24.06	48.14	7.57	18.52
S&P Mid Cap 400	3107.51	-2.83	0.70	13.07	33.90	5.32	11.40
S&P Small Cap 600	1390.67	-3.09	-0.35	6.98	31.20	1.99	9.25
MSCI World ex US	340.57	-1.90	-2.06	10.05	26.33	1.69	6.18
MSCI EM	1134.88	-1.75	-0.09	13.31	27.77	-1.75	4.36
Bloomberg U.S. Aggregate	4.67	-0.92	-2.31	2.03	10.42	-2.06	-0.07
Bloomberg Corporate	5.10	-1.04	-2.19	2.96	13.38	-1.87	0.73
Bloomberg U.S. High Yield	7.30	-0.37	-0.30	7.46	16.88	3.00	4.50
Bloomberg EM USD Aggregate	6.53	-0.64	-1.06	6.79	17.28	-0.41	1.02
Bloomberg Global Aggregate	3.58	-0.92	-2.96	0.40	9.80	-3.98	-1.46
Bloomberg Municipal Bond	3.64	-1.09	-1.33	0.84	9.80	-0.25	1.11

	Price/Yield						
	10/25/2024	1 Week Ago	1 Month Ago	12/31/2023	1 Year Ago	3 Years Ago	5 Years Ago
SOFR (yield)	4.83	4.84	4.84	5.38	5.30	0.04	1.84
30 Year Mortgage (average rate)	7.21	6.96	6.72	6.99	8.09	3.27	3.77
2 Year Treasury (yield)	4.10	3.95	3.56	4.25	5.12	0.44	1.62
10 Year Treasury (yield)	4.24	4.08	3.78	3.88	4.95	1.63	1.79
30 Year Treasury (yield)	4.50	4.39	4.14	4.03	5.09	2.08	2.29
WTI Crude (closing price)	71.78	69.22	69.69	71.65	85.39	83.76	56.66
Gold (NYM \$/oz)	2740.90	2713.70	2660.70	2071.80	1984.10	1806.00	1499.50

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

What Happened Last Week:

▲ **Stocks: Modest Breadth Deterioration For U.S. Large Cap Stocks; Mid-Caps The Preferred Risk-On Play; A Tough Week Abroad As Japan's Election, U.S. Dollar Strength Weigh On Developed And Developing Market Stocks.**

▲ **U.S. Large Caps Experience A Modest Pullback As Leadership Narrows.** The S&P 500 experienced a pullback of just short of 1% last week as the broader index was pulled lower by weakness out of the financial services, health care, industrials, and materials sectors while consumer discretionary was the only sector to post a positive return on the week. Even within the leading sectors, a small number of stocks drove the bulk of the gains with Tesla being the most obvious contributor in the consumer discretionary sector as the stock rose just shy of 22% on the week after the company posted quarterly results. Market leadership, or breadth has narrowed in recent weeks, evidenced by the fact that just 23% of S&P 500 constituents were trading above their 10-day moving average at the end of last week. Narrowing leadership of late has contributed to some modest deterioration in measures of market breadth over longer-term time frames, but 55% of index constituents still traded above their 50-day moving average and 71% traded above their 200-day moving average as of last Friday's close, evidence that breadth is still supportive of a constructive view on stocks into year-end.

▲ **Mid-Caps Proving To Be A Higher Quality, Higher Beta Play**

Over Small-Caps. The S&P Small Cap 600 Index has given ground month-to-date, falling 2% after last week's 2.8% drop due in large part to the continued rise in Treasury yields. The S&P Midcap 400 has outpaced the S&P 600 by 1.9% month-to-date and over 6% year-to-date as this cohort of stocks appears to be a preferred way to play any improvement in the U.S. economic outlook without having to allocate more capital toward what are often lower quality, more heavily indebted smaller capitalization stocks.

▲ **Japan's Election Weighs On Foreign Developed Market Indices.**

The Japanese yen continued to weaken relative to the U.S. dollar last week, ending the week at over 152¥ per USD, good for a 6% month-to-date drop and the first time the yen has closed above 150 to \$1 since July. Much is being made about the country's general election which has led to concerns surrounding how new leadership might approach monetary policy, and these fears have weighed most on cyclical sectors such as consumer discretionary, financial services, industrials, and financials, which together make up roughly 55% of the country index. Amidst the anxiety around political outcomes, the Bank of Japan (BoJ) struck a relatively measured tone last week with Governor Ueda suggesting time is on their side after Tokyo CPI matched the consensus estimate on Thursday, an outcome that allowed Japanese equities to pare losses into the weekend. Ueda stopped short of providing forward guidance, citing concerns around the U.S. economy and an uncertain path forward for monetary policy, leaving traders and investors

to their own interpretations in the lead up to the next policy decision on October 31st. Abroad, political cycles often spur elevated volatility, but historical evidence provides reason enough for investors to view that volatility as an opportunity to lean into uncertainty, and we suspect that will prove to be the case for Japanese stocks this time around as well.

▲ **Broad-Based Weakness Out Of Emerging Markets As U.S. Dollar Strength Weighs On Risk Appetite.**

The 1.7% decline for the MSCI Emerging Markets (EM) equity benchmark last week was concentrated in the Asia Pacific region as benchmark heavyweights including China, India, South Korea, and Taiwan all sold off in unison. Emerging market currencies have faltered in recent weeks relative to the U.S. dollar, potentially a byproduct of some portfolio de-risking into the U.S. election but given our view that the rise in U.S. Treasury yields may be on borrowed time, we could see some U.S. dollar weakness in the coming weeks which might improve sentiment and risk appetite surrounding emerging market stocks and bonds.

▲ **Bonds: Treasury Yields Move Higher But Encounter Resistance As Buyers Step In To Take Advantage Of The Back Up In Rates On Longer-Term Bonds; Loans and Credit Outpace 'Core' Bonds On The Week.**

▲ **Treasury Yields Push Higher Still As Buyers Remain Noticeably Absent.**

The 10-year U.S. Treasury yield broke above its 200-day moving average last Monday, eclipsing the 4.17% level before ultimately trading up to 4.25% mid-week before buyers stepped in and the 10-year yield ended the week at 4.24%, its highest weekly close since late July. Treasury yields have risen due to better economic data throwing cold water on the recession narrative, as well as a prevailing belief on the part of investors that no matter how the election shakes out that the US government's budget deficit will grow larger, weighing on our ability to meet our obligations. The move higher in yields across the curve is also to some degree a byproduct of investors lowering their expectations for rate cuts out of the FOMC in the coming months which increases the appeal of shorter duration bonds, particularly now given heightened political uncertainty leading up to the election

in early November. However, Treasury yields across the curve could be set to fall in the coming weeks/months as election uncertainty subsides and seasonal adjustment factors reverse, potentially leading to surprisingly weak nonfarm payrolls growth in October which would call into question the narrative that the U.S. economy is gaining steam. We remain in the camp that the U.S. economy is normalizing and settling back into a 2% GDP growth regime, meaning it isn't as strong as the upside surprise to September payrolls would suggest, nor is it potentially as weak as the October payrolls report could imply if payrolls come in below 100k for the month.

▲ **Interest Rate Volatility Ramping To New 2024 Highs.**

Early The parabolic move higher in U.S. Treasury yields over the past month has coincided with elevated volatility as measured by the BofA MOVE Index which came close to a year-to-date high last week. Market participants are often enticed by higher yields and at some level become willing to step in and buy bringing some stability to the rates market, but the mix of inflation, economic growth, and labor data set to be released in the coming weeks, along with election/political uncertainty reaching a fever pitch, and you have a recipe for bond traders to sit on their hands until clarity emerges. A pronounced shift in inflation concerns/expectations has been reflected in prices of inflation-protected bonds (TIPS) which have outperformed nominal Treasuries in 6 of the last 7 weeks. Elevated volatility in bond markets can appear to be more technical than useful, but uncertainty in the rates market often has roots in the real economy and can have a substantial impact on the economy with one example being mortgage rates. The national average mortgage rate climbed above 7% last week to levels last seen in July and are well above the 6.7% we saw at the end of September as loan underwriters and bond buyers are demanding a larger spread over less risky bonds to make up for the rise in uncertainty. We expect volatility in the rates market to remain elevated in the lead-up to the election, but perhaps with a downward bias to rates from here as economic data continues to normalize in the coming months/quarters.

▲ **Bank Loans Have Risen To The Top Of The Fixed Income Heap As Yields Have Backed Up.**

While the Bloomberg U.S. High Yield Corporate Index notched a 0.3% decline, its floating-rate counterpart the Bloomberg Leveraged Loan

index gained 0.1% on the week and was again a standout performer amid a bleak backdrop for bonds so far this month. The floating rate loan category has been largely ignored as investors began to price-in an aggressive path forward for rate cuts out of the FOMC in the coming months, but this segment has quietly outpaced core bonds in each of the last four weeks and may be worth monitoring if the FOMC continues to temper market expectations regarding rate cuts due to improved labor market data and/or inflation readings. To this point in the year, refinancing activity has dominated the loan market with minimal new issuance,

and demand for collateralized loan obligations (CLOs), or baskets of loans packaged together to lower the prospect and magnitude of defaults, remains plentiful which should make for smooth sailing into year end. Loans aren't a standalone line-item in our asset allocation framework, but some active high yield managers have the flexibility to toggle between loans and corporate bonds as they see fit to take advantage of dislocations and opportunities as they arise, and we prefer to give our managers the latitude to do just that.

HIGHLAND ASSOCIATES
2545 HIGHLAND AVENUE SOUTH
SUITE 200
BIRMINGHAM, ALABAMA 35205
P. (205) 933-8664
F. (205) 933-7688

- ▲ BIRMINGHAM
- ▲ ST LOUIS
- ▲ MINNEAPOLIS

IMPORTANT DISCLOSURES: 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. 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."

Investment, Insurance and Annuity Products:

Are Not FDIC Insured | Are Not a Deposit | May Go Down in Value | Are Not Bank Guaranteed
Are Not Insured by Any Federal Government Agency | Are Not a Condition of Any Banking Activity