

MARKET UPDATES

[October 15, 2021: Recorded Leadership Discussion Featuring: Regions Chief Economist, Chief Market Strategist and Director of Equity Research.](#)

[October 22, 2021: Join the upcoming live Regions Market Update.](#)

KEY OBSERVATIONS

Stocks: Solid Start To Earnings Season; Nasdaq, Information Technology Sector Boosted By Falling Treasury Yields. Domestic indices cheered quarterly earnings results last week, the S&P 500 rising 1.8%, outpacing the small-cap Russell 2000's 1.4% return. Domestic markets finally exited a historically challenging seasonal period as last week began, and whether it's earnings-related optimism or early positioning for end of year window dressing, risk appetite appeared to return in a meaningful way. Even after a 7-basis point rise on Friday, the 10-year U.S. Treasury yield fell 2 basis points on the week, spurring a bid for secular growth stocks, with the information technology sector, specifically, rising 2.6% on the week, outperforming the broader S&P 500. Abroad, Europe was a standout performer on the week, the Euro Stoxx 50 ETF (FEZ) rallying 3.1%, propelled by France, Germany, Italy and the U.K., among others, driving the MSCI EAFE higher by 2.5% in the process. Eurozone inflation ran 'hot' in September, driven by higher natural gas prices, which led to concerns that the European Central Bank (ECB) might not be able to remain as accommodative as they would like or need to be. Natural gas prices have since fallen sharply after Russia offered to increase natural gas supply to Europe on October 5, alleviating fears that rising inflation could lead to tighter monetary policy – for now, anyway.

Bonds: Treasury Auction Results Indicative Of Robust Demand; Potential Peak In Energy Prices Has Implications For Global Sovereign Yields. \$38B of 10-year (9 years, 11 months to be exact) Treasuries were auctioned off last Tuesday. The offering was well-received with a bid-to-cover ratio of 2.58X, the highest reading since May of 2020 and indicative of robust demand. Indirect bidders, or large foreign buyers such as central banks and sovereign wealth funds, took down 71.1% of the offering, while direct bidders stateside received 17.7%, leaving just 11.2% left for the dealer community - the second lowest percentage of an offering on record. Given the saber rattling and hand wringing going on in D.C. surrounding raising the debt ceiling and passing a budget leading up to the offering, we would have expected demand for long dated U.S. Treasury paper to wane a bit, but the recent back-up in long-term Treasury yields appears to have been more than enough to keep capital flowing into the U.S. from abroad. Notably, the high yield for last week's 10-year auction was 1.58%, up 25 basis points from the 1.33% high yield at the prior \$38B 10-year auction that took place on September 8.

WHAT WE'RE WATCHING

- Quarterly earnings season ramps up this week with 70+ S&P 500 constituents slated to report.
- The Philadelphia (Philly) Fed Index for October is released Thursday and is expected to fall to 24.0 from 30.7 in September. The Philly Fed Index is a measure of overall manufacturing conditions in the Third Federal Reserve District and the final reading is the difference between the percentage of firms reporting increases in activity minus the percentage of firms reporting decreases in activity.
- U.S. Markit Purchasing Managers Index (PMI) for October is released Friday. Markit Manufacturing PMI is expected to fall slightly to 60.5 from 60.7 in September, while Services PMI is projected to fall to 54.4 from 54.9 in September. A reading above 50 indicates that activity is generally expanding, below 50 generally contracting.
- Eurozone Purchasing Managers Composite (PMI) for October is also released Friday after coming in at 56.2 in August. The Composite reading is calculated by combining the Eurozone Manufacturing Output Index and the Eurozone Service Sector Business Activity Index.

	Price/Yield			Total Return (%)			
	10/15/2021	1 Week	1 Month	Year to Date	1 Year	3 Years	5 Years
Dow Jones Industrial Average	35294.76	1.58	1.43	16.98	26.23	14.32	16.87
S&P 500	4471.37	1.84	-0.11	20.40	30.27	19.71	18.14
NASDAQ	14897.34	2.18	-1.71	16.18	28.04	27.24	24.57
Russell 2000 Index	2265.65	1.47	1.48	15.57	39.62	14.88	14.79
MSCI World ex US	2348.43	2.40	-1.13	12.38	28.87	11.65	10.41
MSCI EM	1283.67	1.77	-0.15	1.46	17.27	12.64	10.31
BbgBarc US Aggregate	1.64	0.33	-1.28	-1.72	-1.09	5.52	3.05
BbgBarc Global Aggregate	1.23	0.23	-2.05	-4.19	-1.39	4.32	2.43
BbgBarc US Corporate	2.20	0.71	-1.60	-1.33	1.12	7.73	4.72
BbgBarc 10-Year Muni	1.05	0.07	-0.95	0.31	2.45	5.45	3.46
BbgBarc High Yield	4.16	0.15	-0.65	4.35	9.66	7.13	6.36

	Price/Yield						
	10/15/2021	1 Week Ago	1 Month Ago	12/31/2020	1 Year Ago	3 Years Ago	5 Years Ago
SOFR (yield)	0.05	0.05	0.05	0.07	0.10	2.21	N/A
30 Year Mortgage (average rate)	3.14	3.15	3.00	2.88	3.02	4.75	3.47
2 Year Treasury (yield)	0.40	0.31	0.21	0.12	0.13	2.85	0.84
10 Year Treasury (yield)	1.57	1.61	1.31	0.92	0.73	3.16	1.80
30 Year Treasury (yield)	2.05	2.16	1.87	1.65	1.51	3.34	2.56
WTI Crude (closing price)	82.28	79.55	72.59	48.35	40.84	71.84	50.35
Brent Crude (closing price)	84.80	82.17	74.84	51.22	41.61	80.91	48.87
Gold (NYM \$/oz)	1767.20	1756.30	1792.40	1893.10	1903.20	1226.40	1253.10

WHAT HAPPENED LAST WEEK?

Stocks: Solid Start To Earnings Season; Nasdaq, Information Technology Sector Boosted By Falling Treasury Yields.

Domestic indices cheered quarterly earnings results last week, the S&P 500 rising 1.8%, outpacing the small-cap Russell 2000's 1.4% return. Domestic markets finally exited a historically challenging seasonal period as last week began, and whether it's earnings-related optimism or early positioning for end of year window dressing, risk appetite appeared to return in a meaningful way. Even after a 7-basis point rise on Friday, the 10-year U.S. Treasury yield fell 2 basis points on the week, spurring a bid for secular growth stocks, with the information technology sector, specifically, rising 2.6% on the week, outperforming the broader S&P 500. Abroad, Europe was a standout performer on the week, the Euro Stoxx 50 ETF (FEZ) rallying 3.1%, propelled by France, Germany, Italy and the U.K., among others, driving the MSCI EAFE higher by 2.5% in the process. Eurozone inflation ran 'hot' in September, driven by higher natural gas prices, which led to concerns that the European Central Bank (ECB) might not be able to remain as accommodative as they would like or need to be. Natural gas prices have since fallen sharply after Russia offered to increase natural gas supply to Europe on October 5, alleviating fears that rising inflation could lead to tighter monetary policy – for now, anyway.

- Earnings season kicked off last week with the financial services sector taking center stage. While early, 80% of companies having reported have bested the analyst consensus estimate for sales and the consensus earnings per share estimate. Quarterly results have been strong up to this point but share price performance in the wake of releases has been more mixed. Investors appear to be far more discerning this quarter than last as they evaluate earnings 'quality' and what that implies for the path forward should inflationary pressures remain elevated alongside labor costs. This coming week, well-known companies such as Procter & Gamble, Johnson & Johnson, Nucor, and American Express, among others, are expected to post quarterly results, providing us with a cross-sectional view into how companies operating in different industries/sectors are navigating the current challenging and evolving cost and pricing environment.

- Last Tuesday, West Texas Intermediate (WTI) crude oil hit a 7-year high, one week after natural gas achieved the same feat. Both crude and natural gas trended lower heading into the weekend amid calls from some high-profile market participants that prices may have peaked and could be poised to move lower as supply of natural gas ramps up to meet demand. The Organization of Petroleum Exporting Countries (OPEC) is the global swing producer of crude oil as U.S. drilling activity has dropped off amid a more onerous regulatory backdrop. Surprisingly, OPEC has up to this point stuck to its plan to gradually ramp up production, announcing an increase in supply by 400,000 barrels per day, despite calls from the U.S. and others to produce even more to push prices at the pump down. Sustained higher crude oil prices will test the discipline of some OPEC member countries on the production front

as pressure to take advantage of higher prices will build. The International Energy Agency (IEA) projects a 700,000 per barrel deficit for crude oil supply through year-end and doesn't expect the market to move into a surplus until the first half of 2022, which should be supportive of oil prices for months to come, particularly as utilities across Europe and China continue the recent shift away from using scarce and increasingly expensive natural gas and toward crude oil to generate power.

Bonds: Treasury Auction Results Indicative Of Robust Demand; Potential Peak In Energy Prices Has Implications For Global Sovereign Yields.

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- A 'hot' Eurozone inflation reading in early October put upward pressure on 10-year German bund yields, specifically, spurring a move from -0.30% or thereabouts to -0.09% in around two weeks' time. Rapidly rising inflationary pressures in the Eurozone in September has been primarily attributed to a spike in natural gas prices, with the price of one million British thermal units (btu) rising from \$3.91 at the end of July to a peak of \$6.31 on October 5 – a 61% jump in just over two months' time. However, with the announcement a week and a half ago that Russia was willing to provide Europe with all the natural gas it required during the winter months, the price of natural gas has since backed off in a meaningful way, falling from \$6.31 on 10/5 to \$5.41 last Friday – a 14% fall. 10-year German bund yields have followed natural gas prices lower, declining by 8 basis points over eight trading days and ending last week at -0.18%. With movements in the 10-year U.S. Treasury yield and German bund yield often linked, if natural gas prices fall further, and inflationary pressures ease in the Eurozone in the back-half of October, bund yields could fall back toward -0.30%. Should the 10-year bund yield trend lower driven by a potential peak in energy prices, the 10-year Treasury yield's recent trading range is likely to hold, boosting risk appetite amid a 'Goldilocks' backdrop. We're eyeing the 1.63% to 1.65% zone for the 10-year Treasury yield, and a break above that range could bring the March 31 closing high of 1.74% into play in short order, and lead to another bout of risk-off positioning. *Source: Bloomberg, FactSet*

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