REGIONS
ASSET MANAGEMENT

September 13, 2021

WEEKLY MARKET COMMENTARY

What We're Watching

MARKET UPDATES

September 10, 2021: Recorded Leadership Discussion Featuring: Regions Chief Economist, Chief Investment Officer and Chief Market Strategist.

September 17, 2021: Join the upcoming live Regions Market Update.

KEY OBSERVATIONS

Stocks: De-Risking Dominates Stateside In Holiday Shortened Week; Japan A Standout Abroad. Domestic equity markets traded with a downward bias during the holiday-shortened week as the S&P 500, specifically, closed lower each day. The S&P 500 ultimately fell 1.7% on the week and the Russell 2000 index dropped 2.8%. Trading volume was light, typical for the week following Labor Day, and volatility was elevated relative to recent levels. The CBOE Volatility Index, or VIX, traded between 17 and 20 most of the week before spiking to 21 on Friday as demand for put options/hedges increased as 'risk-off' took hold into the weekend. Abroad, Japan outperformed Europe. The iShares MSCI Japan ETF (EWJ) turned out a 1.4% gain from the prior Friday's close, building on the prior week's 6% rally following the announcement that the country's beleaguered prime minister wouldn't seek reelection after less than one year in office. While our optimism surrounding international developed markets has largely been tied to a more constructive outlook for Europe, specifically, a change in power in Japan could boost investor sentiment/optimism surrounding the country, particularly should even more drastic expansionary monetary or fiscal measures be adopted to spur growth and inflation.

Bonds: U.S. Treasury Auctions Well Received; ECB Decision Pulls European Sovereign Yields Lower. Long-term U.S. Treasury yields bumped up against a ceiling of resistance early last week, the 10-year approaching the 1.37%-1.38% area before falling amid strong demand for 10-year paper at auction mid-week. Following a well-received $38B 10-year auction on Wednesday, the U.S. Treasury auctioned $26.5B of 30-year paper on Thursday, which also was met with significant interest from abroad. Indirect bidders, typically foreign central banks or other large foreign entities took down 71% of the 10-year offering and 69% of the 30-year issue, high percentages relative to recent levels and indicative of continued strong demand for yield from investors abroad. Strong Treasury auction results, along with the European Central Bank (ECB) announcing a symbolic first step in moving away from COVID-era bond purchases, pulled sovereign yields in the U.S. and the Eurozone lower on the week.

WHAT WE'RE WATCHING

- Consumer Price Index (CPI) for August is released Tuesday and is expected to rise 0.4% month over month after a 0.5% uptick in July versus June.
- U.S. Industrial Production for August is released Wednesday and is expected to have risen 0.45% month over month after a 0.9% month over month rise in July relative to June.
- The Philadelphia Fed Index for September is released Thursday and is expected to rise to 19.8 from 19.4 in August. The Philly Fed survey is a measure of overall manufacturing conditions during the month in the Federal Reserve's Third District. Participants indicate the direction of change in overall business activity as well as measures of activity at their plants such as employment, working hours, new/unfilled orders, shipment/delivery times, and inventories.
- The University of Michigan Consumer Sentiment Index for September is released Friday and is expected to rise to 72.0 from 70.3 in August. After a sharp drop in August versus July driven largely by inflation expectations, this reading will be worth monitoring as further deterioration in consumer sentiment could lead to fears surrounding consumer spending and ultimately additional downgrades to GDP growth estimates over coming quarters.

	Price/Yield	Total Return (%)					
	9/10/2021	1 Week	1 Month	Year to Date	1 Year	3 Years	5 Years
Dow Jones Industrial Average	34607.72	-2.11	-1.56	14.63	28.14	12.69	16.48
S&P 500	4458.58	-1.68	0.65	19.91	35.54	17.84	18.15
NASDAQ	15115.50	-1.61	2.29	17.82	39.38	25.16	25.37
Russell 2000 Index	2227.55	-2.80	-0.43	13.50	49.25	10.49	14.29
MSCI World ex US	2390.49	-0.08	1.53	14.04	29.61	11.06	10.29
MSCI EM	1308.94	-0.16	0.93	3.17	23.37	11.86	10.41
BbgBarc US Aggregate	1.44	0.02	0.48	-0.74	-0.21	5.55	3.21
BbgBarc Global Aggregate	1.06	-0.22	0.32	-2.30	0.81	4.69	2.51
BbgBarc US Corporate	2.01	0.11	0.86	-0.20	2.43	7.83	4.98
BbgBarc 10-Year Muni	0.86	0.02	-0.08	1.22	3.09	5.41	3.42
BbgBarc High Yield	3.79	0.11	1.17	4.86	10.75	7.23	6.71

	Price/Yield						
	9/10/2021	1 Week Ago	1 Month Ago	12/31/2020	1 Year Ago	3 Years Ago	5 Years Ago
1 Month LIBOR (rate)	0.08	0.08	0.10	0.14	0.15	2.14	0.53
30 Year Mortgage (average rate)	3.01	3.04	3.05	2.88	3.05	4.47	3.46
2 Year Treasury (yield)	0.22	0.20	0.23	0.12	0.14	2.71	0.78
10 Year Treasury (yield)	1.33	1.32	1.34	0.92	0.68	2.93	1.68
30 Year Treasury (yield)	1.93	1.94	1.98	1.65	1.43	3.09	2.39
WTI Crude (closing price)	69.72	69.34	68.33	48.35	37.25	67.55	45.88
Brent Crude (closing price)	72.92	73.07	71.14	51.22	39.27	76.77	48.37
Gold (NYM $/oz)	1789.60	1830.90	1728.80	1893.10	1954.20	1193.00	1330.10

Source: FactSet

WHAT HAPPENED LAST WEEK?

Stocks: De-Risking Dominates Stateside In Holiday Shortened Week; Japan A Standout Abroad.

Domestic equity markets traded with a downward bias during the holiday-shortened week as the S&P 500, specifically, closed lower each day. The S&P 500 ultimately fell 1.7% on the week and the Russell 2000 index dropped 2.8%. Trading volume was light, typical for the week following Labor Day, and volatility was elevated relative to recent levels. The CBOE Volatility Index, or VIX, traded between 17 and 20 most of the week before spiking to 21 on Friday as demand for put options/hedges increased as 'risk-off' took hold into the weekend. Abroad, Japan outperformed Europe. The iShares MSCI Japan ETF (EWJ) turned out a 1.4% gain from the prior Friday's close, building on the prior week's 6% rally following the announcement that the country's beleaguered prime minister wouldn't seek reelection after less than one year in office. While our optimism surrounding international developed markets has largely been tied to a more constructive outlook for Europe, specifically, a change in power in Japan could boost investor sentiment/optimism surrounding the country, particularly should even more drastic expansionary monetary or fiscal measures be adopted to spur growth and inflation.

• Every S&P 500 sector ended last week in negative territory, so the term 'leadership' simply meant losing less. Consumer staples and utilities held up best, each losing less than 0.2%, and were trailed by financial services, consumer discretionary, industrials, and materials, each falling between 0.5% and 1% on the week. Recent outperforming sectors were victims of profit-taking as real estate was the biggest loser, falling 2.7% on the week, followed by a 2.1% drop for health care, while both information technology and communication services fell between 1.5% and 1.75% on the week.

• After a 5%+ rally in just two weeks' time, Friday's swoon took the small-cap Russell 2000 index 0.1% below its 50-day moving average. The index's 200-day moving average awaits just 1.5% below Friday's level and is again a key level worth watching. The Russell 2000 bounced off its 200-day moving average in August, propelling the index sharply higher, and a break below that level would be noteworthy. We remain in a historically weak spot in the calendar into mid-October and will be monitoring credit spreads for signs that last week's risk-off move could persist or accelerate.

• While risk-off took hold stateside last week, emerging market equities held up surprisingly well, the MSCI EM index falling just 0.1% on the week despite the 'safe-haven' U.S. Dollar index (DXY) rallying 0.6%. South Korea and Brazil were notable detractors, with ETFs tracking both countries falling 3.5% or more on the week. The MSCI EM index's drop would have likely been steeper if not for a call that took place between President Biden and China's President Xi Jinping on Thursday evening, the first since February. Relations between the U.S. and China have been increasingly tense over recent months, and market participants took the chat to imply that at least the lines of communication were open again. Optimists viewed the conversation between the two President's as a potentially positive global trade development, generating a half-hearted bid for Chinese stocks into the weekend. However, traders will likely be quick to re-focus on the in-flux regulatory environment in China and trade around news flow on that front.

Bonds: U.S. Treasury Auctions Well Received; ECB Decision Pulls European Sovereign Yields Lower.

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• As noted above, the European Central Bank (ECB) announced last Thursday that it would scale back its Pandemic Emergency Purchase Program but provided little guidance as to what level it would target. The ECB has been targeting the purchase of €80B of bonds per month as part of its emergency stimulus program, and speculation is that it will lower purchases to €70-€75B and stay at that level for some time. The ECB noted that headline inflation across Europe is accelerating gradually, and encouragingly, was expected to upwardly revise its outlook for economic growth and inflation. The ECB's announcement was somewhat expected as hawkish ECB members had been publicly voicing support to reduce emergency-era stimulus. Notably, despite the ECB's upgraded outlook for the Eurozone economy and inflation expectations, sovereign bond yields across Europe ended the day sharply lower, as ECB President Lagarde alleviated building fears that the ECB's regular monthly bond purchases would end anytime soon.

• Despite a more 'risk-off' tone set by equities last week, corporate credit was well-behaved. The option-adjusted, or credit spread over the Treasury curve for the Bloomberg Barclays U.S. High Yield index closed Friday in-line with the prior week's close, highlighting little desire to de-risk portfolios by trimming positions in lower quality corporate bonds.

Source: Bloomberg, FactSet

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