REGIONS ASSET MANAGEMENT

September 28, 2020

WEEKLY MARKET COMMENTARY

What We're Watching

MARKET UPDATES

September 25, 2020: Recorded Leadership Discussion featuring: Regions Chief Economist, Chief Investment Officer, Chief Market Strategist.

October 2, 2020: Join the upcoming live Regions Market Update.

KEY OBSERVATIONS

Stocks: Nowhere To Hide; Foreign Markets Lag As COVID-19 Cases Tick Up In Europe. Domestic stocks experienced a series of head fakes and reversals over the course of last week, the S&P 500 and Russell 2000 indices ultimately falling 0.6% and 4%, respectively. Foreign markets had a tough go of it as well, the MSCI EAFE and MSCI Emerging Market indices dropping 3.1% and 3.4%, respectively, as the U.S. dollar strengthened versus the euro amid an unsettling rise in COVID-19 case counts across the Eurozone, leading to calls for shutdowns to curtail the virus' spread. Europe's handling of the latest virus outbreak will be closely watched and may be viewed as a blueprint or sign of things to come for the U.S. as we move into colder months. Stocks are fighting an uphill battle as October begins amid a stalemate in Congress surrounding additional fiscal relief, political uncertainty stemming from the upcoming Presidential debates and November election, and rising COVID cases in Europe.

Bonds: Some Cracks In Credit Amid Equity Sell-Off; Treasury Yields Holding Serve. While the month-to-date pullback in the S&P 500 has been sharp and swift, corporate credit has held up well, relatively speaking. The Bloomberg Barclays High Yield (HY) Index kicked off September carrying a yield-to-worst (YTW) of 5.34%, a level not far above the recent low of 5.21% reached in early August, but after September's swoon for stocks and investor risk appetite waning, the YTW is now back above 6%, a level that has acted as a magnet for yield-starved investors. After last week's 1.5% pullback, the HY index is now basically flat year-to-date on a total return basis. Conversely, investment-grade (IG) corporate bonds, exhibited by the Bloomberg Barclays U.S. Corporate index, fell 0.7% on the week and are higher by 6.6% year-to-date. Weakness in corporate credit over recent weeks is noteworthy, but the sell-off has simply brought HY back to valuations last seen in mid/late July. Treasury yields are unchanged over recent weeks and don't point to a pronounced shift toward a 'risk off' mindset, but as COVID-19 cases rise across Europe, and the November election nears with little hope for additional fiscal relief/stimulus, riskier, higher yielding credits may find few incremental buyers until some of this uncertainty subsides.

WHAT WE'RE WATCHING

- The Conference Board's Consumer Confidence Survey for September is released Tuesday and is expected to rise to 90.0 from 84.8 in August.
- The closely watched September nonfarm payrolls report will be released Friday and is expected to show that 875,000 jobs were created during the month, down from the 1.37 million jobs created in August.
- Chicago PMI (Purchasing Managers Index) Survey for September is released Wednesday and is expected to rise to 52.2 from 51.2 in August. The survey provides an overall gauge of business activity during the month, with a reading over 50 indicating that business activity is generally expanding.

	Price/Yield	Total Return (%)					
	9/25/2020	1 Week Ago	1 Month	Year to Date	1 Year	3 Years	5 Years
Dow Jones Industrial Average	27173.96	-1.75	-3.62	-3.07	3.18	9.35	13.47
S&P 500	3298.46	-0.61	-4.08	3.53	12.64	11.90	13.57
NASDAQ	10913.56	1.12	-4.75	22.48	36.43	20.90	19.72
Russell 2000 Index	1474.91	-4.01	-6.01	-10.71	-3.49	1.93	7.11
MSCI World ex US	1830.15	-2.12	-3.87	-8.10	-0.63	0.75	5.39
MSCI EM	1059.10	-3.45	-4.82	-3.04	8.09	1.86	8.98
BbgBarc US Aggregate	1.18	-0.09	-0.10	6.83	7.43	5.14	4.26
BbgBarc Global Aggregate	0.90	-1.02	-0.27	5.35	5.78	3.76	3.92
BbgBarc US Corporate	2.03	-0.69	-0.54	6.59	8.36	6.30	6.01
BbgBarc 10-Year Muni	1.13	0.00	-0.19	3.82	4.64	4.33	4.09
BbgBarc High Yield	6.02	-1.53	-1.44	-0.11	2.33	4.03	6.37

	Price/Yield						
	9/25/2020	1 Week Ago	1 Month	12/31/2019	1 Year Ago	3 Years Ago	5 Years Ago
1 Month LIBOR (rate)	0.15	0.16	0.17	1.76	2.05	1.24	0.19
30 Year Mortgage (average rate)	3.09	3.01	3.13	3.75	3.70	3.78	3.89
2 Year Treasury (yield)	0.13	0.13	0.16	1.57	1.67	1.41	0.70
10 Year Treasury (yield)	0.66	0.69	0.68	1.92	1.73	2.25	2.16
30 Year Treasury (yield)	1.41	1.45	1.39	2.39	2.18	2.78	2.96
WTI Crude (closing price)	40.22	41.09	43.17	61.14	56.38	51.85	45.55
Brent Crude (closing price)	41.92	42.16	46.01	67.77	62.41	59.42	47.28
Gold (NYM $/oz)	1857.70	1952.10	1911.80	1519.50	1504.60	1306.80	1146.00

Source: FactSet

WHAT HAPPENED LAST WEEK?

Stocks: Nowhere To Hide; Foreign Markets Lag As COVID-19 Cases Tick Up In Europe.

Domestic stocks experienced a series of head fakes and reversals over the course of last week, the S&P 500 and Russell 2000 indices ultimately falling 0.6% and 4%, respectively. Foreign markets had a tough go of it as well, the MSCI EAFE and MSCI Emerging Market indices dropping 3.1% and 3.4%, respectively, as the U.S. dollar strengthened versus the euro amid an unsettling rise in COVID-19 case counts across the Eurozone, leading to calls for shutdowns to curtail the virus' spread. Europe's handling of the latest virus outbreak will be closely watched and may be viewed as a blueprint or sign of things to come for the U.S. as we move into colder months. Stocks are fighting an uphill battle as October begins amid a stalemate in Congress surrounding additional fiscal relief, political uncertainty stemming from the upcoming Presidential debates and November election, and rising COVID cases in Europe. Any of the above could sour investor sentiment and limit risk appetite; however, corporate confidence has returned in select industries/sectors as mergers and acquisitions (M&A) activity has picked up and some companies have increased dividends and/or reinstituted share buybacks. Continuing to focus on the long-term while avoiding overreaction to short-term noise and uncertainty should serve C-suite executives and investors alike well.

• Bearish Positioning A Tech Tailwind. We often discuss positioning as a potential headwind for additional stock gains as investor optimism, or simply a lack of healthy skepticism, has over recent years led to aggressive positioning on the long-side, and as everyone moves to one side of the boat, the probability of a pullback rises as additional incremental buyers become difficult to come by. Entering September, optimism surrounding information technology stocks was high, the sector rising 11.8% during August, propelling the S&P 500 to a 7% monthly gain. Price action in August was unsettling as tech stocks marched to successive all-time highs with few setbacks. It certainly felt like everyone was aggressively long technology stocks or had purchased call options on them to benefit from additional upside in the sector, while limiting downside. By last Friday, much of the froth in information technology stocks that developed throughout August had painfully been worked off, the sector down 7.5% month-to-date. Steep declines for information technology stocks into mid-September compelled market participants to hedge against a further fall by carrying significant short positions in technology stocks into last week, driven either by demand for hedging from those desiring to hold positions while protecting against a further decline, or by traders betting on additional downside in the sector. Increased bets against technology stocks in recent weeks meant that incremental sellers would be more difficult to find, a condition that contributed to a short covering rally early last week, a bounce that held into the weekend, the information technology sector rising 1.9% on the week.

• IPO Pipeline Remains Robust. Despite weakness in the broader market and investor risk appetite ebbing over recent weeks, the IPO market has remained hot. Health care offering GoodRx Holdings, a provider of cost comparison tools for prescriptions, led the way, the stock listing Wednesday and immediately jumping 53%. Tech data analytics darling Palantir is expected to list and begin trading Tuesday, with Airbnb expected to follow suit in relatively short order. Palantir is expected to be valued at north of $22B once it begins trading, while there's an expectation that when Airbnb comes public it could be valued closer to $40B. These offerings could again lead to a bout of repositioning for portfolio managers on the growth side of the ledger over coming weeks as capital is raised from existing holdings and reallocated to IPOs.

Bonds: Some Cracks In Credit Amid Equity Sell-Off; Treasury Yields Holding Serve.

While the month-to-date pullback in the S&P 500 has been sharp and swift, corporate credit has held up well, relatively speaking. The Bloomberg Barclays High Yield (HY) Index kicked off September carrying a yield-to-worst (YTW) of 5.34%, a level not far above the recent low of 5.21% reached in early August, but after September's swoon for stocks and investor risk appetite waning, the YTW is now back above 6%, a level that has acted as a magnet for yield-starved investors. After last week's 1.5% pullback, the HY index is now basically flat year-to-date on a total return basis. Conversely, investment-grade (IG) corporate bonds, exhibited by the Bloomberg Barclays U.S. Corporate index, fell 0.7% on the week and are higher by 6.6% year-to-date. Weakness in corporate credit over recent weeks is noteworthy, but the sell-off has simply brought HY back to valuations last seen in mid/late July. Treasury yields are unchanged over recent weeks and don't point to a pronounced shift toward a 'risk off' mindset, but as COVID-19 cases rise across Europe, and the November election nears with little hope for additional fiscal relief/stimulus, riskier, higher yielding credits may find few incremental buyers until some of this uncertainty subsides.

• Exchange traded funds (ETFs) designed to track high yield bond indices now find themselves in a precarious position from a technical perspective. Both the iShares iBoxx High Yield Corporate Bond ETF (HYG) and the SPDR Bloomberg Barclays High Yield Bond ETF (JNK) fell below their 200-day moving average last week, a condition that could bring short-term traders in over coming days/weeks in an attempt to push prices lower still.

• Credit spreads on high yield bonds leaked wider since the start of September, but at 537 basis points over the Treasury curve, compensation for taking on credit risk is still a bit low versus the 20-year average of 549 basis points. Last week's price action and selling of riskier credits point to at least a hint of concern amongst investors previously eager to reach for yield in riskier corporate bonds.

Source: Bloomberg, FactSet

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