REGIONS ASSET MANAGEMENT

WEEKLY MARKET COMMENTARY

What We're Watching

MARKET UPDATES

January 22, 2021: Recorded Leadership Discussion featuring: Regions Chief Economist, Chief Investment Officer, and Chief Market Strategist.

January 29, 2021: Join the upcoming live Regions Market Update.

KEY OBSERVATIONS

Stocks: Reopening Plays Pull Back Into The Weekend; Large-Cap Growth, Emerging Markets Outperform. Beneficiaries of the economic reopening trade pared recent gains into the weekend amid news of COVID-19 vaccine shortages in the U.S. and Europe. As if disappointing news on the vaccine front wasn't bad enough, Hong Kong piled on by announcing a targeted lockdown to curtail the virus' spread, while chatter out of the U.K. pointed toward the need to potentially extend current lockdowns into the summer months. After consistently outperforming over the prior three months, domestic small-cap stocks closed out another winning week, the Russell 2000 index rising 2.1% on its way to a 9.8% year-to-date gain. Bullish sentiment and recent inflows into small-caps could portend a near-term pullback for this group of stocks, which leaves us with a current allocation to domestic small and mid-cap (SMid) names that falls in-line with our long-term strategic target. We remain constructive on domestic SMid over the intermediate term but await a better opportunity to add exposure after the recent run-up.

Bonds: High Yield Credit Rally Continues; IG Has Stalled As Investors Balk At Low Yields; Long-Term Treasury Yields Steady. While global equity markets turned out mixed results over the balance of last week, the rally in high yield credit rolled on, with credit spreads over Treasuries narrowing further and the yield-to-worst (YTW) on the Bloomberg Barclays High Yield index falling another 3 basis points on the week to close at 4.15%. Investors remain quite comfortable reaching for yield, trimming some of their exposure to investment-grade corporates in favor of relatively higher yielding, lower quality credits, with outflows leading to a 1.2% year-to-date decline in the Bloomberg Barclays U.S. Corporate index while the High Yield index is higher by almost 0.5%. The yield-to-worst on the U.S. Corporate index has remained mired in the 1.8% to 1.9% zone for the better part of the past couple of months, and we expect more of the same throughout the balance of 2021 as we anticipate a 'clip your coupon' type year for investors in corporate credit, with yield-to-worst acting a good proxy for expected total return for the full year with substantial price appreciation experienced in 2020 now in the rearview mirror.

WHAT WE'RE WATCHING

- A big earnings week ahead with companies from the consumer staples, industrials, and financial services sectors, among others, set to report.
- January Consumer Confidence is released Tuesday and is expected to rise to 89.1 from 88.6 in December.
- Core PCE (Personal Consumption Expenditure) for December is released Friday and will be monitored for what it may be signaling on the inflation front and what the path forward for Federal Open Market Committee (FOMC) policy throughout the balance of 2021 may look like.

	Price/Yield	Total Return (%)					
	1/22/2021	1 Week Ago	1 Month	Year to Date	1 Year	3 Years	5 Years
Dow Jones Industrial Average	30996.98	0.63	3.36	1.37	8.67	8.23	16.77
S&P 500	3841.47	1.96	4.30	2.36	17.77	12.84	17.34
NASDAQ	13543.06	4.19	5.77	5.10	45.60	23.51	25.48
Russell 2000 Index	2168.76	2.15	9.06	9.84	30.47	12.07	17.88
MSCI World ex US	2192.71	0.17	5.03	2.47	9.79	3.89	10.65
MSCI EM	1392.85	2.78	11.74	7.89	25.89	6.88	17.53
BbgBarc US Aggregate	1.18	0.01	-0.55	-0.75	5.75	5.44	4.10
BbgBarc Global Aggregate	0.88	0.11	-0.17	-0.71	8.25	4.42	4.53
BbgBarc US Corporate	1.86	-0.08	-0.71	-1.22	7.08	7.01	6.48
BbgBarc 10-Year Muni	0.87	0.21	0.27	0.19	4.43	5.10	3.83
BbgBarc High Yield	4.15	0.13	1.18	0.48	6.92	6.17	9.29

	Price/Yield						
	1/22/2021	1 Week Ago	1 Month	12/31/2020	1 Year Ago	3 Years Ago	5 Years Ago
1 Month LIBOR (rate)	0.13	0.13	0.14	0.14	1.66	1.56	0.43
30 Year Mortgage (average rate)	2.88	2.89	2.90	2.88	3.77	4.11	3.87
2 Year Treasury (yield)	0.12	0.13	0.12	0.12	1.51	2.07	0.87
10 Year Treasury (yield)	1.09	1.10	0.92	0.92	1.77	2.66	2.06
30 Year Treasury (yield)	1.86	1.85	1.65	1.65	2.22	2.93	2.83
WTI Crude (closing price)	52.27	52.25	47.02	48.35	56.76	63.66	32.07
Brent Crude (closing price)	55.41	54.80	49.88	51.22	62.11	69.32	30.46
Gold (NYM $/oz)	1855.70	1829.30	1866.60	1893.10	1555.30	1330.90	1097.20

Source: FactSet

WHAT HAPPENED LAST WEEK?

Stocks: Reopening Plays Pull Back Into The Weekend; Large-Cap Growth, Emerging Markets Outperform.

Beneficiaries of the economic reopening trade pared recent gains into the weekend amid news of COVID-19 vaccine shortages in the U.S. and Europe. As if disappointing news on the vaccine front wasn't bad enough, Hong Kong piled on by announcing a targeted lockdown to curtail the virus' spread, while chatter out of the U.K. pointed toward the need to potentially extend current lockdowns into the summer months. After consistently outperforming over the prior three months, domestic small-cap stocks closed out another winning week, the Russell 2000 index rising 2.1% on its way to a 9.8% year-to-date gain. Bullish sentiment and recent inflows into small-caps could portend a near-term pullback for this group of stocks, which leaves us with a current allocation to domestic small and mid-cap (SMid) names that falls in-line with our long-term strategic target. We remain constructive on domestic SMid over the intermediate term but await a better opportunity to add exposure after the recent run-up.

• The energy sector has remained on fire to start the year, rising another 11% year-to-date through last Friday, building on a 28.2% rally in the 4th quarter of 2020. The year-to-date rise has come amid a larger than expected drawdown of crude oil stockpiles, a surprise 1 million barrel per day supply cut out of Saudi Arabia, and concerns surrounding tight U.S. supply over the coming months as U.S. consumers become more mobile and travel as warmer months arrive.

• The U.S. dollar's slide has paused over recent weeks with the U.S. Dollar Index, or DXY, rising 0.3% year-to-date. But while the greenback has stabilized of late, the DXY is still lower by some 7.9% over the trailing year, providing a powerful tailwind for developing economies in the form of lower debt servicing costs, while also boosting demand for commodities such as copper and crude oil that are priced in U.S. dollars and are the lifeblood of economic growth in the emerging world. The dollar's slide has propelled the MSCI EM index to a 31.4% gain over the trailing six months, and a 9% rise year-to-date, highlighting how even dollar stabilization at/near current levels would be a clear-cut positive for emerging markets over the coming year. After emerging Asia, specifically China, Taiwan, and South Korea, outperformed the MSCI EM index by a substantial margin in 2020, our thesis entering 2021 called for strength in the developing world to be more broad-based, with commodity producing laggards such as Russia and Brazil, along with Mexico and India, playing catch-up as a global economic recovery took root. While that remains our base-case, three weeks into the new year, leadership at the country level from 2020 has persisted into 2021, with MSCI indices tied to China, South Korea, and Taiwan each higher by 9% or more already, while country indices tied to Russia, Brazil, Mexico, and India have delivered more lackluster returns. While we remain constructive on emerging markets over the balance of this year, like SMid, EM equities may be vulnerable to near-term weakness given bullish sentiment and inflows spurred by dollar weakness have driven prices higher over the past six months. A near-term reversal higher for the dollar could lead to EM weakness, providing a better entry point for tactical/opportunistic investors to increase exposure.

• With 13% of S&P 500 companies having reported quarterly results as of last Friday, 86% have surpassed the consensus earnings per share estimate, while 82% bested the consensus sales estimate. Only two sectors, financials and consumer staples, have seen over 20% of companies report, so we would avoid deducing too much from such a small sample size, but earnings per share growth for financials have come in at 17.8% year over year and consumer staples at 12.5%, far exceeding the consensus expectation for earnings growth for both sectors leading into earnings season. While the financial services sector has risen 2.8% year-to-date, outpacing the S&P 500's 2.2%, a number of companies in the sector have posted better than expected quarterly results, only to see their share prices trade lower on the heels of the release. The financial services sector appears to be a victim of its own recent success, rising 23.5% over the trailing three months as investors baked in loftier earnings growth expectations as the yield curve steepened. Price action in the financial services sector in the wake of earnings releases may be a warning sign for other economically sensitive pockets of the market that have outperformed as investors have ratcheted higher economic growth expectations and pulled forward expectations surrounding how quickly a recovery might occur. After the S&P 500's 14%-plus post-election rally, good simply may not be good enough and companies failing to live up to great expectations in short order may continue to see their share prices pay the price.

Bonds: High Yield Credit Rally Continues; IG Has Stalled As Investors Balk At Low Yields; Long-Term Treasury Yields Steady.

While global equity markets turned out mixed results over the balance of last week, the rally in high yield credit rolled on, with credit spreads over Treasuries narrowing further and the yield-to-worst (YTW) on the Bloomberg Barclays High Yield index falling another 3 basis points on the week to close at 4.15%. Investors remain quite comfortable reaching for yield, trimming some of their exposure to investment-grade corporates in favor of relatively higher yielding, lower quality credits, with outflows leading to a 1.2% year-to-date decline in the Bloomberg Barclays U.S. Corporate index while the High Yield index is higher by almost 0.5%. The yield-to-worst on the U.S. Corporate index has remained mired in the 1.8% to 1.9% zone for the better part of the past couple of months, and we expect more of the same throughout the balance of 2021 as we anticipate a 'clip your coupon' type year for investors in corporate credit, with yield-to-worst acting a good proxy for expected total return for the full year with substantial price appreciation experienced in 2020 now in the rearview mirror.

• Record Treasury issuance has continued in recent weeks, with $24B of 30-year Treasuries auctioned January 13 at a yield of 1.825%, below the yield on the on-the-run issue. The 2.47 bid to cover highlighted incredibly strong demand, driven by indirect bidders from abroad. After the year-to-date back-up in long-term U.S. Treasury yields, foreign buyers again seem eager to deploy capital into safe-haven U.S. assets, and with yields on 'comparable' sovereign credits issued across the Eurozone remaining in negative territory, this dynamic could remain in place for some time to come. The 10-year U.S. Treasury yield traded up to 1.18% intra-day within the past couple of weeks, but remained anchored around 1.10% throughout the duration of last week as investors awaited clarity on the potential size of any fiscal relief package that might be passed over coming weeks/months.

Source: Bloomberg, FactSet

REGIONS
ASSET MANAGEMENT