REGIONS
ASSET MANAGEMENT

WEEKLY MARKET COMMENTARY

What We're Watching

MARKET UPDATES

January 29, 2021: Recorded Leadership Discussion featuring: Chief Investment Officer, Chief Market Strategist, and Director of Equity Portfolio Management.

February 5, 2021: Join the upcoming live Regions Market Update.

KEY OBSERVATIONS

Stocks: Rocky Week For Risk Assets As Stateside Sell-Off Spreads Overseas. Volatility, exhibited by the CBOE Volatility Index, or VIX, jumped 61% last Wednesday, spiking from a benign 23 up to 37 as demand for hedging via put options increased. The S&P 500 fell 2.6% last Wednesday as hedge funds sold/trimmed crowded long stock positions to meet margin calls and de-risk portfolios in the face of a grassroots revolt that started on the WallStreetBets (WSB) forum on Reddit.com earlier in the week. There was nowhere to hide from last week's sell-off, the S&P 500 dropping 3.3%, but still outperforming the small-cap Russell 2000 which fell 4.3%. Abroad, the MSCI Emerging Markets index lost 4.2% on the week, while developed markets fared a bit better, the MSCI EAFE falling 3.6%. While we expect small and mid-cap U.S. stocks, along with emerging markets to perform well over the balance of 2021, recent froth needs to be worked off in our view, and last week's price action could be the start of a larger decline, providing investors with a better opportunity to increase exposure to these areas.

Bonds: 10-Year Treasury Yield Tests 1%; High Yield Gives Back Gains, Investment-Grade Holds Up. Long-term Treasury yields traded in a tight range over the course of last week, the 10-year yield mired between 1% and 1.1% and the 30-year yield trading just one basis point on either side of 1.8%. Corporate bonds held up relatively well considering the 'risk-off' trade that took hold on the equity side of the ledger over the balance of last week, with the Bloomberg Barclays U.S. Corporate index falling less than 0.1% on the week while the Bloomberg Barclays High Yield index fell just under 0.2%. We continue to expect volatility and drawdowns to remain subdued across the corporate credit landscape throughout the balance of 2021, with more of the same over coming months as investors quickly step in to buy any dip in lower quality, relatively higher yielding corporate issues.

WHAT WE'RE WATCHING

- Institute of Supply Management (ISM) Manufacturing report for January is released Monday and is expected to fall slightly month over month to 60 from 60.7 in December. ISM Non- Manufacturing is released Wednesday and is expected to also fall slightly to 56.9 in January from 57.2 in December. Readings at those levels would indicate that the manufacturing and non-manufacturing segments of the U.S. economy are generally expanding.
- January Nonfarm Payrolls are released Friday and are expected to rise by 80,000 after 140,000 jobs were lost during December. The unemployment rate is expected to remain at 6.7%.

	Price/Yield	Total Return (%)					
	1/29/2021	1 Week Ago	1 Month	Year to Date	1 Year	3 Years	5 Years
Dow Jones Industrial Average	29982.62	-3.27	-1.08	-1.95	6.75	6.73	15.47
S&P 500	3714.24	-3.29	-0.22	-1.01	15.56	11.31	16.15
NASDAQ	13070.70	-3.48	1.75	1.44	42.17	21.74	24.47
Russell 2000 Index	2073.64	-4.38	5.89	5.03	27.41	10.57	16.49
MSCI World ex US	2116.96	-3.11	-1.55	-1.05	7.87	2.55	9.51
MSCI EM	1329.57	-4.27	5.09	3.09	24.22	4.44	15.45
BbgBarc US Aggregate	1.17	0.03	-0.56	-0.72	4.98	5.47	4.00
BbgBarc Global Aggregate	0.88	-0.17	-0.65	-0.88	7.47	4.22	4.43
BbgBarc US Corporate	1.86	-0.06	-1.00	-1.28	6.15	6.92	6.39
BbgBarc 10-Year Muni	0.80	0.38	0.59	0.57	4.32	5.42	3.86
BbgBarc High Yield	4.31	-0.15	0.41	0.33	7.25	6.07	9.01

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	1/29/2021	1 Week Ago	1 Month	12/31/2020	1 Year Ago	3 Years Ago	5 Years Ago
1 Month LIBOR (rate)	0.12	0.13	0.15	0.14	1.65	1.57	0.43
30 Year Mortgage (average rate)	2.88	2.88	2.87	2.88	3.66	4.16	3.87
2 Year Treasury (yield)	0.12	0.12	0.13	0.12	1.42	2.12	0.77
10 Year Treasury (yield)	1.09	1.09	0.93	0.92	1.59	2.66	1.92
30 Year Treasury (yield)	1.85	1.86	1.67	1.65	2.05	2.91	2.75
WTI Crude (closing price)	52.14	52.28	47.85	48.35	53.29	65.71	33.66
Brent Crude (closing price)	55.88	55.22	50.44	51.22	59.46	68.41	33.14
Gold (NYM $/oz)	1847.30	1855.70	1879.70	1893.10	1569.80	1339.80	1116.40

Source: FactSet

WHAT HAPPENED LAST WEEK?

Stocks: Rocky Week For Risk Assets As Stateside Sell-Off Spreads Overseas.

Volatility, exhibited by the CBOE Volatility Index, or VIX, jumped 61% last Wednesday, spiking from a benign 23 up to 37 as demand for hedging via put options increased. The S&P 500 fell 2.6% last Wednesday as hedge funds sold/trimmed crowded long stock positions to meet margin calls and de-risk portfolios in the face of a grassroots revolt that started on the WallStreetBets (WSB) forum on Reddit.com earlier in the week. There was nowhere to hide from last week's sell-off, the S&P 500 dropping 3.3%, but still outperforming the small-cap Russell 2000 which fell 4.3%. Abroad, the MSCI Emerging Markets index lost 4.2% on the week, while developed markets fared a bit better, the MSCI EAFE falling 3.6%. While we expect small and mid-cap U.S. stocks, along with emerging markets to perform well over the balance of 2021, recent froth needs to be worked off in our view, and last week's price action could be the start of a larger decline, providing investors with a better opportunity to increase exposure to these areas.

• Reddit/WSB: Some of the hedge fund community's most popular short positions, or positions betting that a company's share price would fall, took center stage last week. Gamestop, AMC Entertainment, Nokia, and Blackberry, as well as a number of other companies most investors forgot existed, offered up the trade, or perhaps most appropriately, trades of a lifetime for users of the WallStreetBets (WSB) online day trading forum on Reddit.com. Posters joined forces to push long positions in these stocks and/or the purchase of call options on many of these beaten down names, leading to a short squeeze for the ages. A short squeeze occurs when an investor, in this case hedge funds, has borrowed shares of stock to short or bet against a company's share price and is forced to cover positions by buying shares back at virtually any available price, leading to a sharp move higher in the share price as demand for shares far outpaces supply. Last week we witnessed a short squeeze on steroids, with a number of the most beleaguered and oft bet against names charging higher, some generating returns of 1,000% or more for investors in a couple days' time, reaping massive rewards for WSB forum users and hedge funds running computer programs to scrub websites for trades in short order. However, the game changed mid-inning on Thursday as Robinhood, TDAmeritrade, and others stepped in to curtail trading of some of these stocks on their platforms, disadvantaging the WSB cohort while providing hedge funds with an opportunity to reset and get long or press/initiate short bets against these names in an effort to quickly recoup losses or reap fast gains. It's notable that Robinhood was known to sell order flow data gathered from client trades to the hedge fund community, which allowed the platform to offer free/cheap trading to the retail community. In short, Robinhood users weren't paying for the product/service because they were the product/service. The actions taken by some platforms to prevent trading in these names is another cautionary tale and will do little to quash the narrative that investing is rigged and favors 'big guys' over the 'little guy,' but it also is a reminder that exit and counterparty risk are real and must be understood and appreciated prior to entering into a position, even when liquidity is ample and the ability to trade on margin with borrowed funds is widely available. How regulators, specifically the Securities and Exchange Commission (SEC), respond in the wake of last week's market upheaval will be well worth following, but once all of the facts are gathered some changes will likely be forced upon platform providers in the name of 'protecting' investors and 'leveling the playing field.' Is this phenomenon simply a sideshow or will it be a sea change on the market structure front? It's too early to tell, but it will likely shake out somewhere in the middle.

Bonds: 10-Year Treasury Yield Tests 1%; High Yield Gives Back Gains, Investment-Grade Holds Up.

Long-term Treasury yields traded in a tight range over the course of last week, the 10-year yield mired between 1% and 1.1% and the 30-year yield trading just one basis point on either side of 1.8%. Corporate bonds held up relatively well considering the 'risk-off' trade that took hold on the equity side of the ledger over the balance of last week, with the Bloomberg Barclays U.S. Corporate index falling less than 0.1% on the week while the Bloomberg Barclays High Yield index fell just under 0.2%. We continue to expect volatility and drawdowns to remain subdued across the corporate credit landscape throughout the balance of 2021, with more of the same over coming months as investors quickly step in to buy any dip in lower quality, relatively higher yielding corporate issues.

• The yield curve flattened slightly over the course of last week, driven by a mild drop in long-term yields amid sobering commentary out of FOMC Chair Jerome Powell. The Federal Open Market Committee noted in meeting minutes last Wednesday that the pace of the recovery in economic activity and employment have moderated over recent months, while adding that the path of the economic recovery will depend significantly on the course of the virus, including progress on vaccinations, the rollout of which up to this point has been fraught with hiccups and missteps.

• Corporate credit held up relatively well last week, particularly considering how jittery equity investors appeared to be as volatility spiked and the S&P 500 experienced its deepest drawdown since November last Wednesday. The Bloomberg Barclays U.S. Corporate index ended the week with a credit spread, or option adjusted spread (OAS), over the Treasury curve of 97 basis points and a yield-to-worst (YTW) of 1.86%, both measures just a couple of basis points higher than the prior week's close. The Bloomberg Barclays High Yield index fared less well, with the OAS widening to 362 basis points from 348 the previous Friday, while the index's YTW rose to 4.31% from 4.15%.

Source: Bloomberg, FactSet

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