MONTHLY
MARKET REVIEW

10 2024

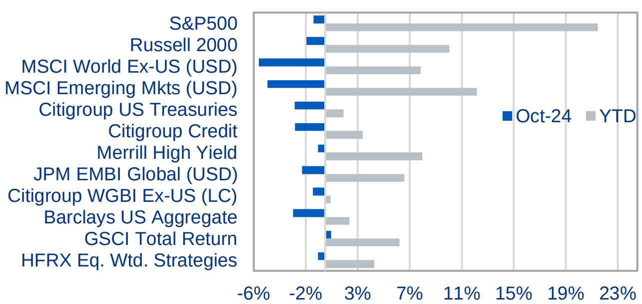
Global Market Review

U.S. political and global geopolitical uncertainty are at extraordinarily high levels. Depending on the outcome of the U.S. election, markets face widely divergent scenarios for the future path of fiscal, monetary, trade, and exchange rate policies. Wars in Europe and the Middle East pose additional unknowable risks. Nevertheless, with the exception of record high gold prices, global markets have so far met uncertainty with equanimity.

Global equity markets lost some ground in October, with the decline in the U.S. market triggered by disappointing earnings from a few mega-cap tech stocks. The S&P 500 index nevertheless remains near record levels and global equities are still solidly higher this year. U.S. Treasury yields rose across the maturity spectrum in October, reflecting the potential for higher fiscal deficits ahead. The U.S. dollar appreciated against most currencies. Oil prices also rose in October but are down for the year. Gold closed the month at another record high.

Performance of Major Market Indices

Sources: S&P, MSCI, FTSE Russell, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, HFR, Bloomberg.



Global equity and bond markets remain solidly higher.

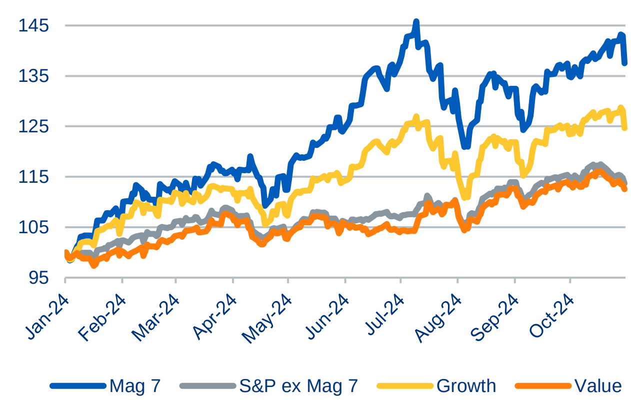
Scary Earnings Spook U.S. Equities on Halloween

Disappointing earnings reports from Microsoft and a few other tech heavyweights sent a chill through the U.S. stock market on Halloween, the last trading day of the month. Microsoft fell 6.1% on the day while the S&P 500 and NASDAQ indices lost 1.9% and 2.8%, respectively. The day's decline erased earlier gains during the month, resulting in a 0.9% fall in the S&P 500 in October. The index is nevertheless up 21% so far this year.

The Halloween sell off highlights the continued dominance of a few mega cap tech stocks in the U.S. equity market. The share of the 10 largest companies in the total market capitalization of the S&P 500 is at record levels, exceeding the heights of the 2000 tech bubble by a wide margin. In addition, more than one fifth of the earnings of the S&P 500 are accounted for by the mega cap tech stocks of the Magnificent 7. Finally, the valuation of the 10 largest companies in the U.S. market is at all-time highs, skewing the valuation of the market as a whole and amplifying the broader market's vulnerability to earnings and other disappointments from a handful of dominant firms.

Exhibit 1. Mag 7 Decline Weighs on Market in October

Source: Bloomberg. Index January 1, 2024 = 100.



Reflecting the dominance of the mega-cap tech sector, growth stocks have outperformed value by a wide margin so far this year and large cap stocks are handily outpacing small (Exhibit 1). All market sectors have generated gains, with particularly strong performance by the telecom, technology, and financials sectors so far this year. The energy sector, although up for the year, has been the laggard, reflecting weakness in the oil market.

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Non-U.S. Equity Markets Also Decline

The MSCI World ex-U.S. index of advanced economy stocks fell 5.1% in October but remains up 7.3% for the year. European markets fell 5.9% in October, despite the ECB's decision to cut its policy rate to 3.25%, its third rate cut this year. Disappointing corporate earnings, weak euro area economic growth, and uncertainty over the U.S. election were the main catalysts for the European market decline. Japanese equities also lost ground in October, falling 3.9%.

Emerging equity markets lost 4.4% in October but remain up 11.7% so far this year. Losses were spread across the main regional constituents of the index and were compounded in U.S. dollar terms by the appreciation of dollar. A sharp decline in the Chinese equity market following its surge in September weighed heavily on the broader index (Exhibit 2).

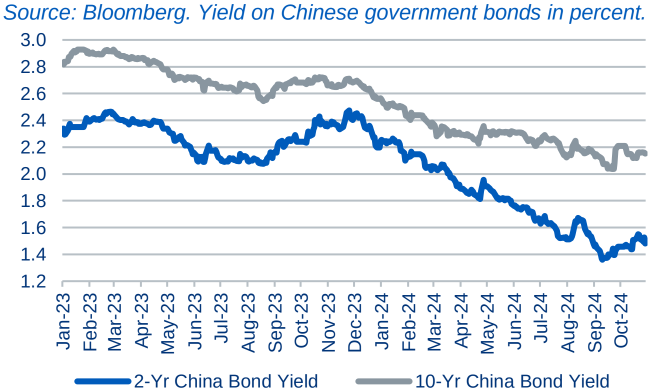
Exhibit 2. Market Reassess Chinese Stimulus Strength

Source: Bloomberg. Index January 1, 2024 = 100.

An initial surge of enthusiasm over the massive stimulus package announced by the Chinese authorities pushed Chinese equities 23.1% higher in September. That enthusiasm seems to be waning. Questions remain on whether the Chinese authorities will follow through with measures adequate to the task of pulling the economy out of an incipient debt-deflation spiral. The combination of high debt levels, excess capacity from years of poorly targeted investment, a property market in crisis, and a fragile financial sector heavily exposed to the property sector are contributing to the buildup of disinflationary forces and weak sentiment. These forces are reflected in a steady decline in the yields on Chinese government bonds (Exhibit 3).

Exhibit 3. Chinese Yields Reflect Deflationary Pressures

Source: Bloomberg. Yield on Chinese government bonds in percent.

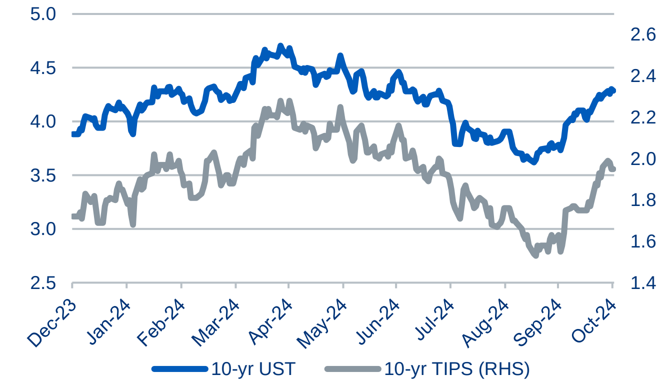


U.S. Treasury Yields Rise

The broad U.S. Treasury index fell 2.4% in October, with the 10+ year maturity segment losing 5.1%. So far this year, the broad index remains up 1.4% while the 10+ year segment is down 2.3%. U.S. Treasury yields rose about 50 basis points across the maturity spectrum in October. Higher yields on TIPS contributed to the bulk of this increase as inflation expectations were little changed (Exhibit 4). In the credit markets, investment grade and high yield bonds fell 2.5% and 0.5%, respectively in October. Credit spreads, however, remain tight. For the year as a whole, investment grade and high yield bonds remain up 1.9% and 7.7%, respectively.

Exhibit 4. Real and Nominal Treasury Yields Rise

Source: Bloomberg. 10-year U.S. Treasury and TIPS yields in percent.



Although the increase in U.S. Treasury yields in October arguably reflected some concern over the uncertain future path of fiscal policy, the market reaction to extraordinarily high levels of policy uncertainty stemming from the U.S. election has so far remained mostly muted. Expected short-term equity volatility is moderate, U.S. equity prices and valuations are near record highs, credit spreads are narrow, and consumer sentiment improved in October. Gold prices, however, have been rising steadily this year. After gaining 10% in September, gold prices rose a further 2.9% in October to close at another record high. Fears over inflation do not appear to be a prime driver of the gold market's strength. The most likely catalysts include purchases by the central banks of Russia and China to diversify their reserves away from the U.S. dollar as well as retail purchases motivated by geopolitical concerns.

Performance of Major Market Indices through 10-31-2024

Sources: MSCI, FTSE, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, S&P GSCI, HFR, Bloomberg.

	1-Month	QTD	YTD	1-Year	3-Year	5-Year
S&P500	-0.9%	-0.9%	21.0%	38.0%	9.1%	15.3%
Russell 2000	-1.4%	-1.4%	9.6%	34.1%	0.0%	8.5%
MSCI World Ex-US (USD)	-5.1%	-5.1%	7.3%	23.8%	2.8%	6.6%
MSCI Emerging Mkts (USD)	-4.4%	-4.4%	11.7%	25.3%	-1.4%	3.9%
Citigroup US Treasuries	-2.4%	-2.4%	1.4%	8.4%	-2.5%	-0.7%
Citigroup Credit	-2.3%	-2.3%	2.9%	13.5%	-2.1%	0.6%
Merrill High Yield	-0.6%	-0.6%	7.5%	16.5%	3.0%	4.4%
JPM EMBI Global (USD)	-1.8%	-1.8%	6.1%	17.6%	-0.7%	0.8%
Citigroup WGBI Ex-US (LC)	-0.9%	-0.9%	0.4%	6.0%	-3.4%	-2.2%
Barclays US Aggregate	-2.5%	-2.5%	1.9%	10.5%	-2.2%	-0.2%
GSCI Total Return	0.5%	0.5%	5.7%	-1.5%	6.9%	7.9%
HFRX Eq. Wtd. Strategies	-0.6%	-0.6%	3.8%	7.1%	1.0%	2.7%