STATE STREET GLOBAL ADVISORS

October 17, 2024
Commentary

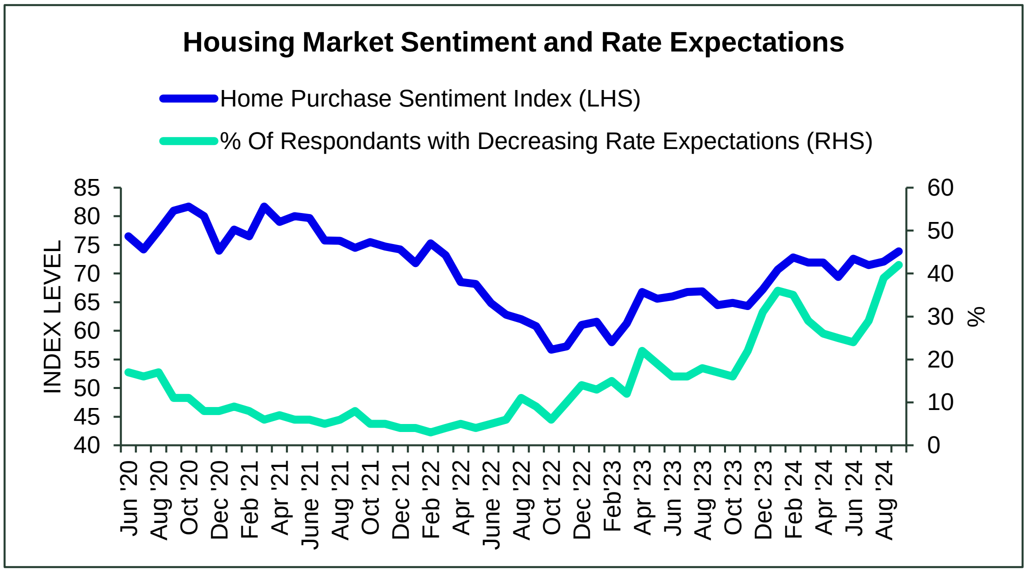
Weekly Market Update

Insight of the Week

Housing Rebound? Mortgage Optimism Soars

The Home Purchase Sentiment Index (HPSI) increased in September to 73.9, the highest it has been in over 2 years, marking a significant shift in consumer expectations for the housing market. The index is designed to track consumers' housing-related attitudes, intentions, and perceptions, using questions from the National Housing Survey® (NHS).

A critical development in the recent data, is the direction of optimism regarding future mortgage rates. The percentage of respondents who say mortgage rates will go down in the next 12 months increased from 39% to 42%, a recent survey high.



Source: Fannie Mae, National Housing Survey. Data as of 10/15/2024

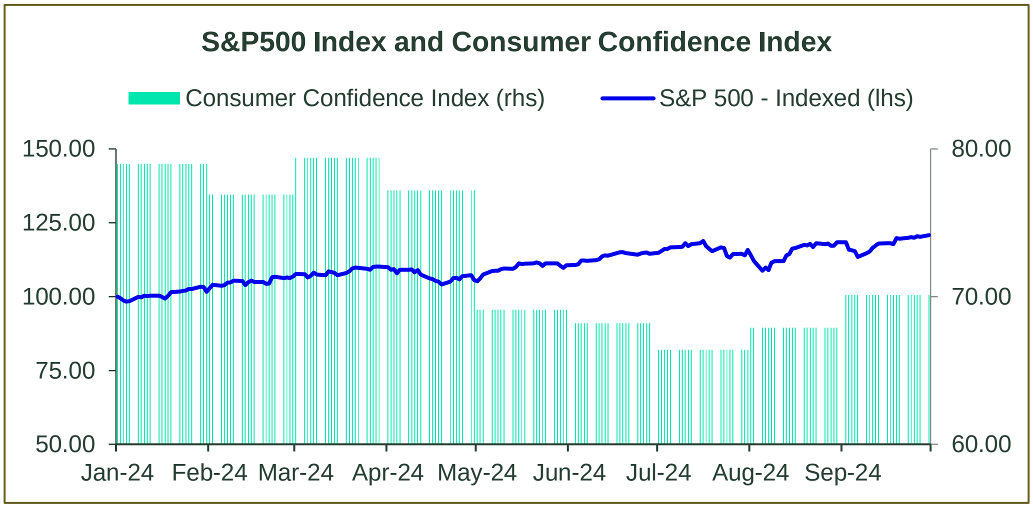
Elevated rates have discouraged not only new buyers, but existing homeowners who may want to move but don't want to give up their existing low rate. With consumers expecting rates to fall, concerns may begin to ease and attract buyers to re-enter the market. This could lead to an increase in activity for home sales especially when lenders start to reflect these expectations with more favorable terms. Affordability seems to be the key here, and although there still seems to be restraints, this shift in confidence may suggest some buyers will act sooner, anticipating future savings on mortgage payments. If consumers act on their optimistic outlook, then the housing market could be a growth engine again, contributing to the soft landing that we continue to expect.

Source: State Street Global Advisors, Fannie Mae, National Housing Survey.

Equities

Market Sentiment Rebounds Too?

In the Insight of the Week above, we mention how the recovery of consumer sentiment is notable through expanding housing sales amidst rate cut expectations. Throughout 2024, the relationship between consumer confidence and S&P 500 was spurious. As of early August, they've exhibited a higher correlation.



Source: FactSet, University of Michigan, FRED. S&P500 is indexed to 01/01/2024. Data as of 09/30/2024.

While consumer confidence might provide some insights into the strength of the economy, corporate earnings tend to have more explanatory power for market sentiment. High expectations have been placed on corporate earnings going forward. There are no shortage of risks, which include stretched valuations, elections, and rate path uncertainty, just to name a few. Although the first 6 months of 2024 resulted in EPS growth exceeding expectations, most recent predictions for Q4 and FY2024 levels of growth have been downgraded.

Reported earnings, EPS growth				Estimated earnings, EPS growth					
Q1' 24		Q2' 24		Q3 '24		Q4 '24		CY 2024	
Q1'24A	Dec'23E	Q2'24A	Mar'24E	Q3'24A	Jun'24E	Jun'24E	Oct '24E	Jun'24E	Oct '24E
0.59	0.53	1.12	0.87	0.57	0.77	1.68	1.38	1.07	0.94

Source: FactSet. All estimates (E) are as of the end of the month, Oct'24E are as of 10/16/2024. Reported earnings for Q3'24 include 49 companies that published their quarterly reports. Data as of 10/16/2024.

The gap between the best- and worst-reporting sectors in the S&P500 index is anticipated to be rather significant in the third quarter – while the highest-performing sector is Information Technology at 15.02% earnings growth expectations, Energy and Industrials are forecasted to have a negative growth of (27.15%) and (11.25%) respectively. Interestingly, during rate cutting cycles defensive sectors historically perform best, but that hasn't yet been the case.

At present, the US economy appears to be in good shape, strengthened by the recovery in consumer confidence and strong corporate balance sheets. More earnings releases, and their corresponding forward guidance, will bring beneficial insight into how strong the economy actually is.

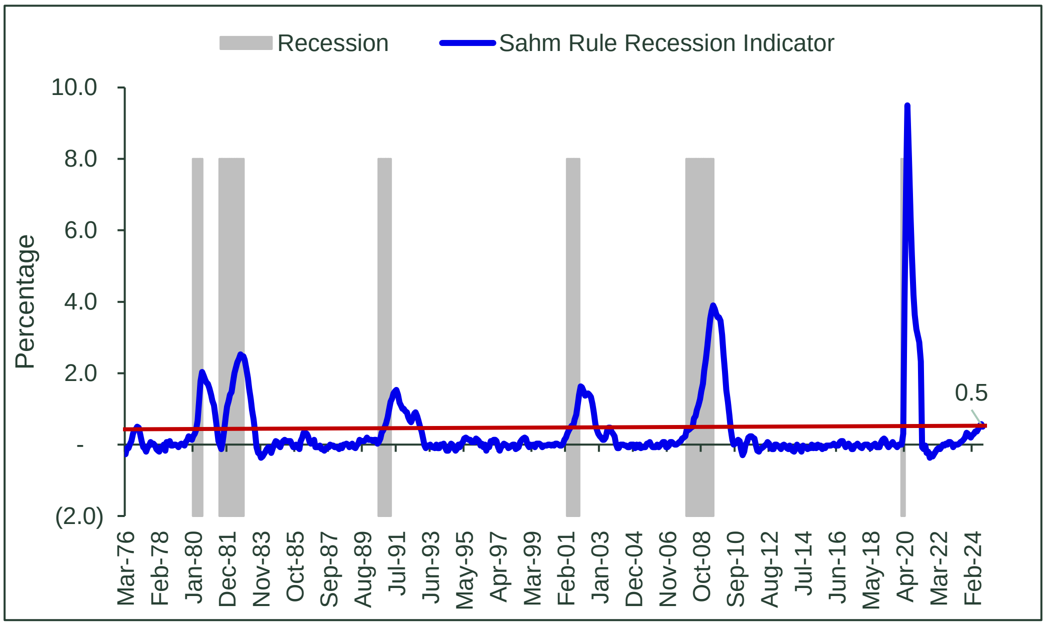
Source: State Street Global Advisors, FactSet.

Fixed Income

Sahm Rule Pointing to Initial Phase of Recession

We recently discussed the Beveridge Curve that outlines the relationship between the unemployment rate and vacancy rates. Findings showed that vacancy rates are starting to decline as firms pull back on hiring plans amid signs of an economic slowdown. This week we will revisit the Sahm rule.

The Sahm rule uses the average three month unemployment rate and subtracts the lowest 12-month unemployment print; a difference of 0.5% or greater suggests a recession has been triggered. Based on this measure, the current value of 0.5% would indicate that we are in the early stages of a recession. Markets are pricing in a high probability of a soft landing but are exposed to any shocks in the economy. This is especially true for risk assets.



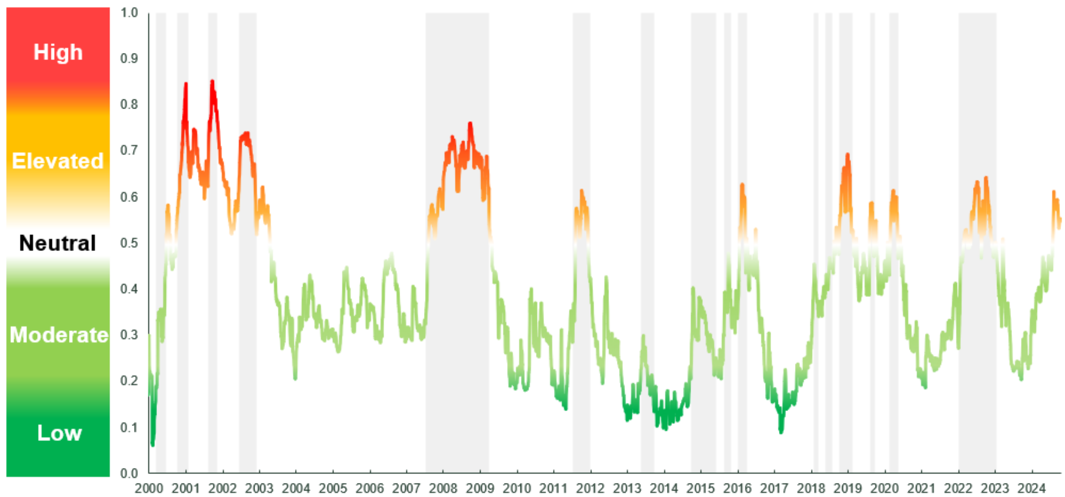
Source: Bloomberg. Data as of 9/30/2024.

Within spread sectors, credit fundamentals remain robust but are starting to show signs of softening, downgrades remain subdued and issuance remains healthy. But, risks remain. A rebound in inflation, higher U.S. treasury term premiums, geopolitical surprises, and/or growth shocks could cause spreads to widen significantly especially within high yield. We remain cautious on credit and recommend investment grade over high yield. Within investment grade we recommend rotating out of cyclical sectors and into defensive sectors.

Source: State Street Global Advisors, Bloomberg.

Market Regime Indicator

The Market Regime Indicator (MRI) represents a proprietary multi-asset class model designed to characterize risk appetites within the capital markets.



Source: State Street Global Advisors, Investment Solutions Group (ISG). As of October 16, 2024. The data displayed is not indicative of the past or future performance of any SSGA product. The above data represents a back-test of the MRI model, which means that those results were achieved by means of the retroactive application of the model which was developed with the benefit of hindsight. Data displayed beyond this date is not backtested, but is still generated by the model referenced. All data shown above does not represent the results of actual trading, and in fact, actual results could differ substantially, and there is the potential for loss as well as profit. The Market Regime Indicator (MRI) is a quantitative framework that attempts to identify the current market risk environment based on forward-looking market indicators. We believe the factors used are good indicators of the current risk environment as they are responsive to real-time market impacts and in theory should include all current and forward views of those markets. These factors are combined to create a single measure and used to identify one of four risk regimes: Low Risk, Moderate, Normal, Elevated and High Risk..

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*Pensions & Investments Research Center, as of 12/31/23.
†This figure is presented as of June 30, 2024 and includes ETF AUM of $1,393.92 billion USD of which approximately $69.35 billion USD is in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated. Please note all AUM is unaudited.

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Generally, among asset classes, stocks are more volatile than bonds or short-term instruments. Government bonds and corporate bonds generally have more moderate short-term price fluctuations than stocks, but provide lower potential long-term returns. U.S. Treasury Bills maintain a stable value if held to maturity, but returns are generally only slightly above the inflation rate.

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Exp. Date: 4/30/2025