STATE STREET GLOBAL ADVISORS

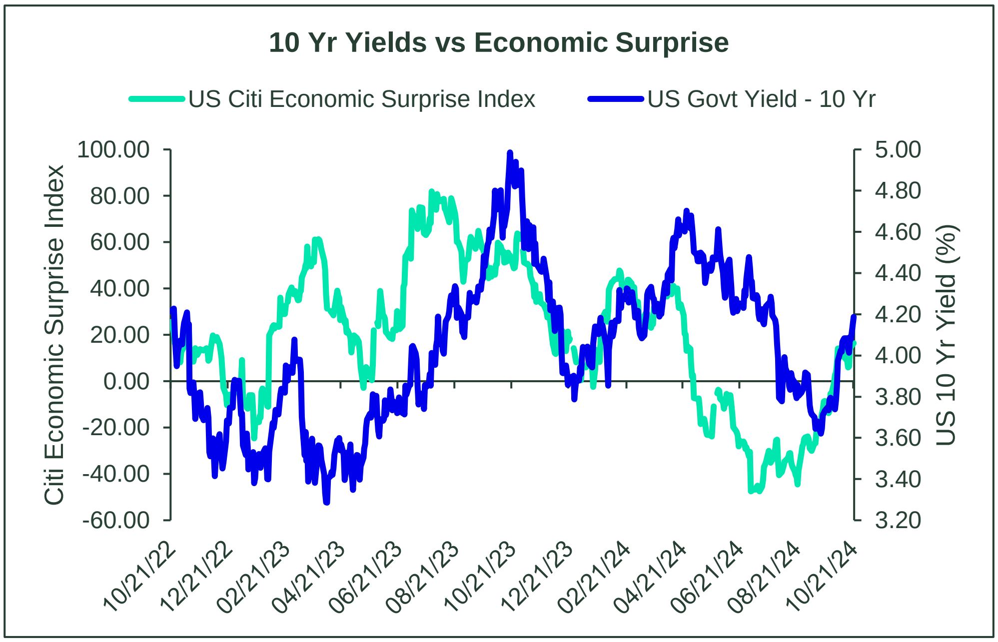
October 24, 2024
Commentary

Weekly Market Update

Insight of the Week

A 10Yr Yield Moving Opposite to Fed Policy

Since mid-September when the Fed initially cut rates by 50bps, US 10Yr yields have gone the other way and climbed nearly 60 basis points. What is causing the backing up in yields? Odds of a Trump presidency have been rising, and the rhetoric concerning tariffs intensifies, causing investors to contemplate the impact on inflation. Additionally, there is the resiliency of the recent economic data. What we've seen over the past couple of years is a direct relationship between the Citi US Economic Surprise Index and 10 Yr. Yields.



Source: Citi, FactSet. Data as of 10/21/2024.

The Citi Economic Surprise Index indicates that recent economic data has generally exceeded expectations, suggesting that economic forecasts have underestimated the US economy. The index has been on an upward trend since August and the positive economic surprise is telling a story of resiliency.

Over the last few years, the US economy has defied expectations of a sharp slowdown despite concerns of high interest rates and inflationary pressures. With the index remaining in positive territory, bond yields are moving along with it, as higher growth tends to support higher rates. While there are undoubtedly a variety of potential risks, the current data suggests that the US economy remains on track towards a soft landing.

Source: State Street Global Advisors, Citi, FactSet.

Equities

Market Digesting a Lot: Who Are the Winners YTD?

As markets grapple with the presidential election occurring in less than two weeks and the next moves from the Fed, yields have backed up and put some pressure on equity markets. Not only was the latest CPI print hotter than expected, but betting odds have improved for former President Donald Trump. This back up in yields may be in part due to the market pricing in inflationary policies such as stricter immigration, and tariffs on trading partners. Or, it could be due to concerns over the deficit, which is likely to increase under either candidate. This worry is also evident in the performance of Gold which is up 31% year-to-date, higher than the S&P 500’s 22% return.

Apart from the recent worry/caution that has consumed the market, we have begun to witness broadening of performance within the equity market. For instance, sectors such as financials and utilities have caught up with technology and growth focused sectors. The table below sorts S&P 500 sector performance year-to-date.

S&P 500 Sectors	YTD Total Return (%)
Information Technology	33.15
Utilities	32.88
Communication Services	28.02
Financials	26.74
Industrials	21.28
Consumer Staples	18.02
Materials	13.63
Real Estate	13.44
Health Care	11.68
Energy	10.86
Consumer Discretionary	10.17

Source: FactSet. Data as of 10/23/2024 in USD total return.

Interestingly, financials exhibit cyclical characteristics where utilities are known to show defensive properties. Why then have both performed so well? Likely due to idiosyncratic forces driving returns in these sectors. Within financials, banks benefit during a rate cutting cycle as steepening of the yield curve promotes net interest income. Additionally, the deregulation theme that comes along with a Trump presidency could also benefit the financial sector. Lastly, as Q3 earnings start to roll in with ~54% of Financials reporting, the sector has surprised to the upside, with earnings growth of 7.8%.

The Utilities sector within the S&P 500 is neck and neck with the technology sector for best performance this year. Why? It comes down to the technology that has driven much of this year’s equity market rally, artificial intelligence. These new technologies require vast amounts of power and electricity to keep data centers up and running. As AI continues to grow and is implemented into more business models, that will drive further demand for power.

The result of the presidential election and the makeup of congress will be important drivers for what sectors contribute the most to return over the next few years.

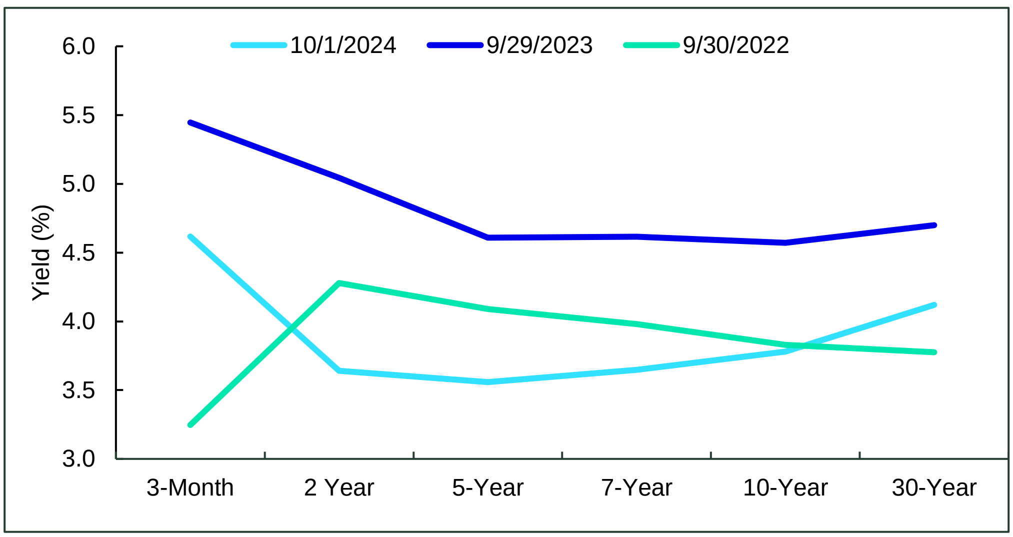
However, underlying structural trends and the monetary path forward will be just as important.

Source: FactSet. Data as of 10/23/2024 unless otherwise stated. Returns calculated under Trumps first presidential term calculated from 1/20/2017 to 1/20/2021 in USD total return terms.

Fixed Income

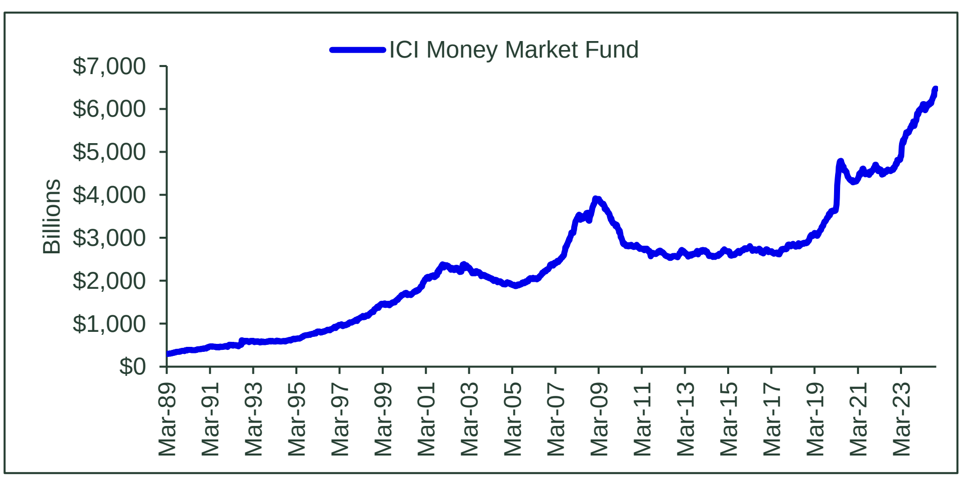
Surge in Money Market Assets As the Federal Reserve Initiates Rate Cuts

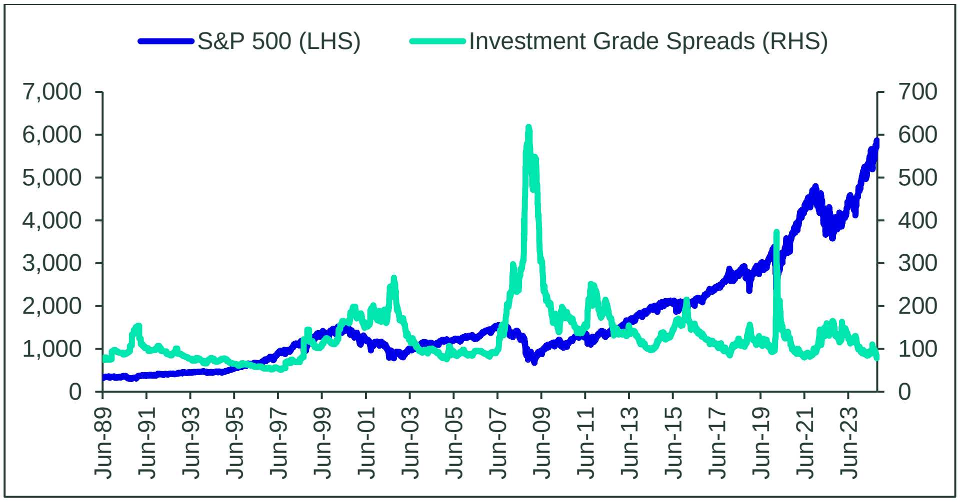
Money Market Fund assets have continued to surge over the last four years and are now at a record high of $6.4 trillion (ICI). As the Federal Reserve initiated its restrictive monetary policy in 2022, yields at the front end of the curve increased faster than yields for US Treasuries with longer maturities, presenting money market fund investors with returns of over 5% in H1 ‘23. But as the Federal Reserve began to cut rates in September 2024, market participants are wondering when money will flow out of these funds.



Source: Bloomberg 10/22/2024.

But investors continue to favor cash over riskier assets such as equity and fixed income investment grade credit where valuations remain rich.





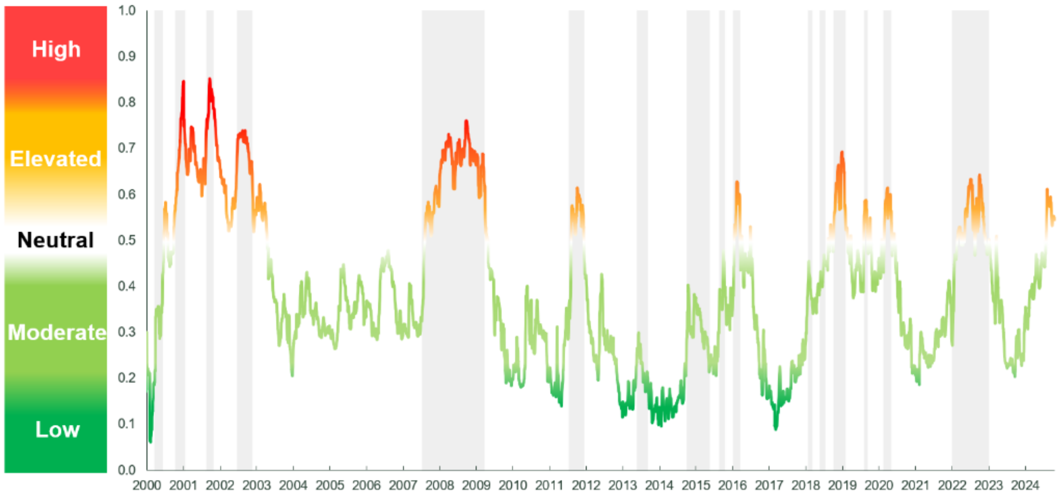
Source: Bloomberg. Data as of 10/22/ 2024.

The September jobs data surprised to the upside and markets adjusted their rate cut expectations from eight 25bps cuts by the end of 2025 to five, leaving the Fed Funds rate at ~3.5%. Peter Crane, of Crane Data, a money market and mutual fund information firm, thinks investors could start to move assets out of money markets once yields fall below 3%, and that may not happen till 2026. Money Market Funds offer safety and liquidity and perhaps, with risk assets at these levels, that's a good place to be.

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 23, 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..

About State Street Global Advisors

For four decades, State Street Global Advisors has served the world's governments, institutions and financial advisors. With a rigorous, risk-aware approach built on research, analysis and market-tested experience, we build from a breadth of index and active strategies to create cost-effective solutions. As pioneers in index and ETF investing, we are always inventing new ways to invest. As a result, we have become the world's fourth-largest asset manager* with US $4.37 trillion† under our care.

*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.

ssga.com

[State Street Global Advisors Global Entities]

Marketing Communication

The information provided does not constitute investment advice and it should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell a security. It does not take into account any investor's particular investment objectives, strategies, tax status or investment horizon. You should consult your tax and financial advisor.

The information contained in this communication is not a research recommendation or 'investment research' and is classified as a 'Marketing Communication' in accordance with the applicable regional regulation. This means that this marketing communication (a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research (b) is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This communication is directed at professional clients (this includes eligible counterparties as defined by the "appropriate EU regulator") who are deemed both knowledgeable and experienced in matters relating to investments. The products and services to which this communication relates are only available to such persons and persons of any other description (including retail clients) should not rely on this communication.

The views expressed in this material are the views of Dane Smith, Christine Norton, Devin Foster, and Zanub Raza through the period ended October 24, 2024 and are subject to change based on market and other conditions. This document contains certain statements that may be deemed forward-looking statements. Please note that any such statements are not guarantees of any future performance and actual results or developments may differ materially from those projected.

Investing involves risk including the risk of loss of principal.

The whole or any part of this work may not be reproduced, copied or transmitted or any of its contents disclosed to third parties without SSGA's express written consent.

All information is from SSGA unless otherwise noted and has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability or completeness of, nor liability for, decisions based on such information and it should not be relied on as such.

Equity securities may fluctuate in value and can decline significantly in response to the activities of individual companies and general market and economic conditions.

Bonds generally present less short-term risk and volatility than stocks, but contain interest rate risk (as interest rates raise, bond prices usually fall); issuer default risk; issuer credit risk; liquidity risk; and inflation risk. These effects are usually pronounced for longer-term securities. Any fixed income security sold or redeemed prior to maturity may be subject to a substantial gain or loss.

Currency Risk is a form of risk that arises from the change in price of one currency against another. Whenever investors or companies have assets or business operations across national borders, they face currency risk if their positions are not hedged.

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.

AdTrax: 5064514.84.1.GBL.RTL

Exp. Date: 4/30/2025