

Key Takeaways:

- Consumer spending drives U.S. economic growth.
- U.S. budget deficit grew to third largest on record; interest on debt surpasses \$1 trillion.
- Global equities lower on expectations for less aggressive rate cuts in the future.
- Four “Magnificent 7” constituents lower and weigh on market performance.
- Treasury yields climb to near three-month high.

October Recap – A Disappointing Month for all Major Asset Classes

Volatility surged and investors in all major asset classes were disappointed in October. A mixed start to 3Q24 earnings season, sticky inflation data, a weak labor market report and uncertainty around the U.S. Presidential election led markets lower. Global equities as measured by the MSCI AC World Index were lower for the first time in six months. In addition, U.S. Treasury yields surged to their highest levels in three months as investors digested Fed commentary that suggests the pace of rate hikes may not be as aggressive as previously anticipated. In this weekly Insights, we provide a recap of October from an economic and asset class perspective.

- **Consumer spending drives economic growth:** The U.S. economy grew more than expected in 3Q24, supported by robust consumer spending, which increased by the most since early 2023.
- **Inflation remains sticky:** Headline inflation, as tracked by the Consumer Price Index, increased slightly more than expected last month. The three-month annualized rate of CPI Core

inflation increased by the most since May. In addition, the Fed’s preferred inflation gauge, Core PCE, increased at the fastest monthly pace since April.

- **Third-largest fiscal budget deficit on record:** The U.S. budget deficit grew to \$1.833 trillion for FY’24. In addition, the interest on federal debt exceeded \$1 trillion for the first time in history.
- **Job growth slows driven by weather related disruptions:** The U.S. economy added 12K jobs in October due to weather-related disruptions in the Southeast and a strike at Boeing.

Global Equities - Global equities falter: The MSCI AC World Index was lower for the first time in six months as investors weighed economic data that suggest rate cuts may not be as aggressive as expected.

- **Developed markets lag emerging market counterparts:** The MSCI EAFE (Developed Market) Index underperformed its emerging market counterpart by ~100bps. This is the second straight month emerging markets have outperformed developed markets.

- **US equities lower:** The S&P 500 Index was lower for the first time in six months. Four of the “Magnificent 7” companies were lower, including Apple, Microsoft, Tesla, and Meta. Shares of Nvidia, however, posted their best monthly return since June.

Fixed Income - Bond yields surge: The Bloomberg Aggregate Index was lower for the first time in six months as Treasury yields jumped to near three-month highs.

- **A broad sell-off:** The safest areas of fixed income weighed on performance for the asset class. Investment grade, international and mortgage-backed bonds led the weakness. The only sectors to post modest gains were floating rate notes and leveraged loans.

Commodities: The Bloomberg Commodity Index was lower for the first time in three months.

- **Copper lower on China stimulus:** Copper prices were lower for the first time in three months amid unclear China stimulus measures and production constraints in the country tightened global supply.

Weekly Economic Recap –

Inflation Progress Stalling; Job Growth Slows Amid Weather Disturbances

Consumer confidence, as measured by the Conference Board surprisingly jumped in October. It was the largest monthly increase since March 2021. The increase was led by an improvement in the labor market as those viewing jobs plentiful compared to those viewing jobs hard to get rose to a four month high.

Home prices as measured by the S&P CoreLogic Index rose for the 19th consecutive month in August. On a year over year basis, the gains were robust but slowed from the prior month. The gains were led by homes in Seattle, Chicago and Washington.

Job openings, as tracked by the JOLTS report, fell to the lowest level since early 2021, and last month's reading was revised lower. Layoffs increased to the highest level since January 2023 while the quits rate (i.e., those leaving jobs voluntarily) was steady at 1.9%.

The US economy expanded at a faster pace than expected in 3Q24 (2.8% vs. 2.7% est.). Consumer spending, the largest component of GDP, remained robust, increasing at the fastest pace since early 2023 (3.7% QoQ). Federal spending increased by the most since early 2021 with spending on National defense increasing 14.9% QoQ, the most since 2003.

The Fed's preferred inflation gauge, PCE Core, remained relatively unchanged at 2.7% year-over-year and was slightly higher than forecast (2.6%). On a monthly basis, the increase in core PCE was the fastest since April. The increase was driven by services prices. Air transportation increased at the fastest monthly pace since April 2022 (2.7%).

The U.S. economy posted the smallest number of job gains since December 2020 as the October labor market was impacted by the hurricanes in the Southeast. The unemployment rate remained steady at 4.1%.

Key Takeaways:

- Consumer confidence surprisingly jumps.
- Core inflation is proving sticky.
- U.S. posts smallest number of job gains since Dec. '20.
- Mega-Cap tech earnings disappoint; Tech underperforms.
- Yields continue higher after sticky inflation report.
- Crude oil lower after Israel retaliatory attack on Iran.

Weekly Market Recap –

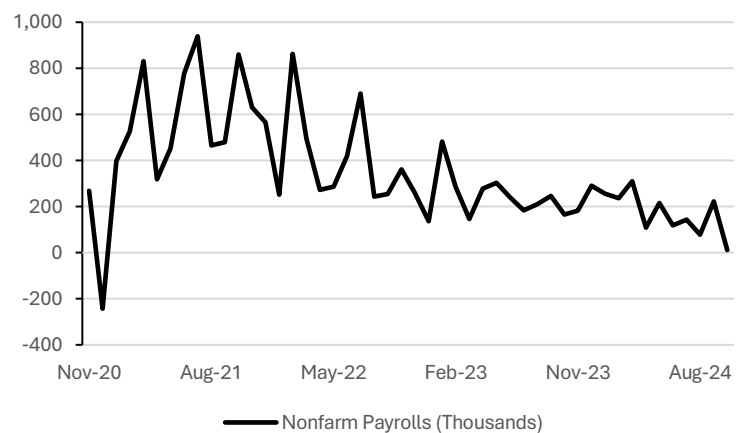
Mega-Cap Tech Earnings Dissappoint; Yields Continue Higher

Equities: The MSCI AC World Index was lower for the second straight week as investors digested key growth and inflation data out of the U.S. In addition, mega-cap tech earnings disappointed. Most of the major averages in the U.S. were lower for the week led by large cap growth and technology. However, small cap stocks were modestly higher.

Fixed Income: The Bloomberg Barclays Aggregate Index was lower for the second consecutive week. Treasury yields continued higher as investors weighed the outlook for the Federal Reserve's rate cut path amid sticky inflation (core PCE) and a weak labor report. Floating rate bonds and leveraged loans were the only sectors moving higher.

Commodities/FX: The Bloomberg Commodity Index was lower for the third time in four weeks. Crude oil prices were lower after Israel launched a retaliatory attack on Iran but spared their oil facilities. Gold prices ended the week slightly lower for the first time in four weeks.

Job Growth Slows to Lowest Level Since Dec. '20



Footnotes: Data is as of October 2024.
Data Source: FactSet Research Systems, Verdence Capital Advisors.

All Major Asset Classes Lower for the Week

		Current	1WK	1MO	3MO	1YR	YTD			Current	1WK	1MO	3MO	1YR	YTD
U.S. Equities	Dow Jones Industrial Average	42,052	-0.1%	-0.2%	4.7%	28.9%	13.3%	International Equities	MSCI AC World (USD)	835	-1.2%	-1.2%	4.3%	32.0%	16.4%
	S&P 500	5,729	-1.4%	0.4%	5.5%	37.1%	21.5%		MSCI EAFE (USD)	2,336	-1.0%	-4.8%	0.3%	21.8%	7.0%
	Russell 1000 Growth	3,795	-1.6%	1.8%	7.3%	42.7%	25.0%		MSCI Europe ex UK (USD)	2,614	-1.4%	-3.9%	0.6%	23.2%	6.2%
	Russell 1000 Value	1,848	-0.8%	-0.7%	4.0%	30.4%	15.4%		MSCI Japan (USD)	3,830	2.0%	-3.9%	-4.0%	22.3%	8.0%
	Russell Midcap	3,501	-0.8%	0.1%	5.1%	34.6%	13.9%		MSCI UK (USD)	1,261	-1.2%	-3.6%	0.8%	23.4%	10.8%
	Russell 2000	2,210	0.1%	0.6%	1.4%	34.3%	10.2%		MSCI EM (USD)	1,122	-1.2%	-4.4%	3.5%	25.5%	11.9%
	Nasdaq	18,240	-1.5%	1.9%	6.3%	40.8%	22.2%		MSCI Asia ex Japan (USD)	731	-1.2%	-4.5%	5.4%	28.7%	16.0%
Fixed Income	U.S. Aggregate	4.8%	-0.6%	-3.2%	-0.6%	9.0%	1.4%	Commodities	Bloomberg Commodity Index	235	-2.1%	-2.8%	3.9%	-0.8%	3.9%
	U.S. Govt/Credit	4.7%	-0.6%	-3.1%	-0.5%	8.8%	1.4%		Crude Oil (USD/bbl)	\$71.6	6.2%	-2.8%	-2.0%	-9.0%	-0.1%
	U.S. 10 Year Treasury	4.4%	-1.0%	-4.6%	-2.1%	7.2%	-0.8%		Gold (\$/oz)	\$2,736.5	-0.1%	3.3%	12.2%	37.6%	32.9%
	U.S. TIPS (1-10YR)	4.4%	-0.4%	-1.9%	0.2%	6.7%	3.2%		Copper	\$437.2	1.1%	-3.6%	7.5%	19.8%	13.3%
	U.S. High Yield	7.3%	0.0%	-0.5%	2.8%	16.1%	7.5%		Wheat	\$568.0	1.9%	-3.5%	1.2%	-13.9%	-14.9%
	EM Bonds (USD)	6.6%	-0.4%	-1.9%	2.0%	16.2%	6.4%		U.S. Dollar	104	-0.7%	1.1%	0.4%	-1.3%	2.3%
	Municipal Bonds	3.7%	0.0%	-1.7%	0.0%	9.5%	0.8%		VIX Index	21.9	7.6%	13.6%	17.7%	29.7%	75.7%

Footnotes: Data is as of November 1, 2024.

Data Source: Bloomberg Finance LP, Verdenance Capital Advisors.

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