

Market Pulse

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In focus

Three key themes will continue to dominate the market narrative and drive performance in the week ahead – Earnings, inflation, and growth.

Earnings – Traders are readying themselves for a bustling calendar of fresh corporate earnings. Roughly one-third of U.S. companies in the S&P 500 index will report their Q3 results, led by major U.S. tech companies. Thus far, the earnings season is off to a strong start. More than 80% of reported earnings have exceeded analysts' expectations. Year-over-year earnings growth is on track to rise 30-35%. While we expect equity returns to moderate relative to their strong performance thus far in 2021, strong earnings trends remain supportive of our constructive outlook for U.S. equities.

Inflation – On Friday, Federal Reserve (Fed) Chair Powell re-signaled the Fed is set to taper its asset purchases very soon on the basis of strong inflation and progress on the labor front. Over the past three days, Powell and Treasury Secretary Yellen have each warned that high inflation will persist well into 2022. As a result, traders are pricing in two full rate hikes in 2022. We believe this is premature and expect these hawkish bets to ease as supply chains reopen, labor shortages improve, and the Fed signals patience towards future rate hikes.

Growth – On Thursday, annualized Q3 GDP is expected to fall to 2.8% from 6.7% in Q2, as a result of supply challenges, labor shortages, and Delta fears. Our work suggests the summer slowdown is already giving way to stronger activity in Q4, which should put the recent stagflation debate to bed. Declining new Delta cases and strong U.S. PMI data inform our outlook for robust growth to close out the year.

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A look back

- Major U.S. equity indices set new all-time highs last week. The S&P 500 rallied 1.6% as the vast majority of U.S. companies beat third quarter earnings expectations. The S&P 500 is up 21% year-to-date.
- Treasury yields rose decisively, with most pressure concentrated in the first 10 years of the yield curve. 10-year yields finished the week at 1.63%.
- Fed Chair Powell reiterated the Fed's plan to taper asset purchases soon but stay patient with respect to rate hikes. Treasury Secretary Yellen said she now expects strong inflation to persist through 1H 2022.

A look ahead

- 30% of companies in the S&P 500 index will report Q3 earnings this week, led by tech giants AAPL, AMZN, FB, GOOGL, and MSFT. Other reports in focus – BA, CAT, KO, MCD, MRK.
- Thursday's first look at Q3 GDP will likely show an expected slowdown in growth as a result of supply chain disruptions, widespread labor shortages, and the spread of the Delta variant.
- Economic releases: New Home Sales, Durable Goods Orders, U. of Mich. Sentiment, 3Q U.S. GDP, Personal Income, Personal Spending.

Chart of the week – Inflation expectations at a two-decade high

5-year U.S. breakeven yields offer one measure of the market's inflation expectations over a 5-year horizon. As of this morning, 5-year breakeven yields sit at their highest level since Bloomberg began warehousing this dataset. It reflects investors' shifting mindset with respect to near-term inflation from "transitory" to "persistently transitory."

5-year U.S. breakevens



Data Source: Truist IAG, Bloomberg

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As of October 22, 2021

Index % Total Return	Week	MTD	QTD	YTD	1 Yr
MSCI ACWI (net)	1.28	4.67	4.67	16.30	29.78
S&P 500	1.66	5.58	5.58	22.39	33.40
MSCI EAFE (net)	0.62	2.57	2.57	11.13	27.49
MSCI Emerging Markets (net)	0.75	3.24	3.24	1.95	16.04
Dow Jones Industrials	1.12	5.50	5.50	18.30	28.08
NASDAQ Composite	1.29	4.44	4.44	17.08	31.01
S&P U.S. REIT	1.90	7.42	7.42	31.10	42.27
Bloomberg Commodity Index	-0.93	2.98	2.98	32.97	40.41
Bloomberg Aggregate	-0.37	-0.54	-0.54	-2.09	-0.97
ICE BofA US High Yield	-0.10	-0.27	-0.27	4.40	9.51
Bloomberg Municipal Bond Blend 1-15 Year	-0.27	-0.32	-0.32	0.16	1.78
ICE BofA Global Government xUS (USD Unhedged)	0.00	-0.44	-0.44	-8.30	-5.11
ICE BofA Global Government xUS (USD Hedged)	-0.35	-0.36	-0.36	-2.35	-1.65
JP Morgan EMBI Global Diversified	-0.37	-0.50	-0.50	-1.86	3.19

Rates (%)	10/22/21	9/30/21	6/30/21	3/31/21	12/31/20
Fed Funds Target	0.25	0.25	0.25	0.25	0.25
Libor, 3-Month	0.12	0.13	0.14	0.19	0.23
T-Bill, 3-Month	0.05	0.03	0.05	0.02	0.07
2-Year Treasury	0.46	0.28	0.25	0.16	0.11
5-Year Treasury	1.20	0.99	0.87	0.93	0.36
10-Year Treasury	1.63	1.52	1.44	1.73	0.91
30-Year Treasury	2.08	2.09	2.06	2.42	1.64
Bloomberg Aggregate (YTW)	1.70	1.56	1.50	1.61	1.12
Bloomberg Municipal Bond Blend 1-15 Year	0.93	0.84	0.76	0.87	0.77
ICE BofA US High Yield	4.20	4.08	3.85	4.27	4.24
Currencies	10/22/21	9/30/21	6/30/21	3/31/21	12/31/20
Euro (\$/€)	1.16	1.16	1.19	1.18	1.22
Yen (¥/\$)	113.59	111.57	110.99	110.50	103.25
Pound (\$/£)	1.38	1.35	1.38	1.38	1.37
Commodities	10/22/21	9/30/21	6/30/21	3/31/21	12/31/20
Crude Oil (WTI)	83.76	75.03	73.47	59.16	48.52
Gold	1,796	1,757	1,772	1,716	1,895
Volatility	10/22/21	9/30/21	6/30/21	3/31/21	12/31/20
CBOE VIX	15.43	23.14	15.83	19.40	22.75

U.S. style % total returns (S&P indexes)						
Week			YTD			
Value	Core	Growth	Value	Core	Growth	
1.47	1.66	1.81	21.48	22.39	23.18	Large
1.31	1.78	2.31	28.01	22.42	16.89	Mid
1.18	1.27	1.39	30.69	24.57	18.41	Small



Data Source: Truist, FactSet

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S&P 500 Index is comprised of 500 widely-held securities considered to be representative of the stock market in general.

S&P 500 Information Technology Index —a capitalization-weighted index that is composed of those companies included in the S&P 500 that are classified as members of the information technology sector based on GICS® classification.

The CBOE Volatility Index® (VIX®) is a measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices.

MSCI ACWI Index (MSCI All Country World) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 45 country indices comprising 24 developed and 21 emerging market country indices.

MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. & Canada.

MSCI EM Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.

Bloomberg Global Aggregate Index is an index of investment grade debt including treasury, government-related, corporate and securitized debt, from 24 local currency benchmarks.

Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq.

The ICE BofAML U.S. High Yield Index tracks the performance of below investment grade, but not in default, U.S. dollar denominated corporate bonds publicly issued in the U.S. domestic market, and includes issues with a credit rating of BBB or below, as rated by Moody's and S&P.

The Bloomberg Municipal Bond Blend 1-15 Year (1-17 Yr) is an index of municipal bonds with a minimum credit rating of at least Baa, issued as part of a deal of at least \$50 million, that have a maturity value of at least \$5 million and a maturity range of 12 to 17 years.

The Bloomberg U.S. Corporate High Yield measures the USD-denominated high yield fixed-rate corporate bond market. Bonds are classified as high yield if they are rated below BBB by Moody's and S&P.

The Bloomberg Dollar Spot Index tracks a basket of 10 leading global currencies versus the U.S. dollar.

The ICE BofAML Global Government ex U.S. Index tracks the performance of publicly issued investment grade sovereign debt denominated in the issuer's own domestic currency excluding all securities denominated in U.S. dollars.

JP Morgan EMBI Global Diversified index includes only USD-denominated emerging markets sovereign bonds and the traditional, market capitalization weighted method for country allocation is modified to limit the weights of index countries with larger debt loads by only including a specified portion of the eligible fact amounts of the debt outstanding.

The Bloomberg Commodity Index is a composition of futures contracts on physical commodities in five sectors including energy, agriculture, industrial metals, precious metals and livestock.

The S&P U.S. REIT index measures the investable universe of publicly traded real estate investment trusts domiciled in the United States.

IA SBBBI U.S. Large Stock Index measures the total return of U.S. large cap stocks on a monthly basis.

IA SBBBI Intermediate-Term Government Bond Index measures the total return of U.S. intermediate-term government bonds on a monthly basis.

IA SBBBI U.S. 30-day T-Bill index measures the total return of T-Bills with a maturity of one month on a monthly basis.

The S&P 500 High Beta index measures the performance of 100 constituents in the S&P 500 that are the most sensitive to changes in market returns.

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