Weekly Market Update

Equity markets continue to heal in October

WILLIAM RIEGEL, CHIEF INVESTMENT OFFICER, TIAA-CREF ASSET MANAGEMENT

Article Highlights

- U.S. and European stocks post sizable gains for the week.
- A “risk-on” environment dampens demand for Treasuries and buoys high-yield bonds.
- Commodity prices, led by oil, have begun to rebound, a positive for the global economy and markets.
- In our view, U.S. stocks are poised to advance further into year-end, potentially reaching previous highs.

October 9, 2015

Equities

The first full week of October brought better news to global equity markets. In the U.S., the S&P 500 Index gained 3.3%— its best weekly performance in 2015, bringing its month-to-date return to 5%.

In Europe, the STOXX 600 Index extended its winning streak to six days, returning 5.1% for the week in U.S. dollar terms (4.3% in local currency terms). Investors digested some mixed economic data, including an unexpected slowdown in German exports and a fifth straight month of rising Eurozone retail sales, the longest such streak since 2006. Meanwhile, Chinese equity markets notched gains on October 8 and 9 after being closed for a week due to a national holiday.

Fixed income

U.S. Treasury yields rose as the prior week’s “risk-off” sentiment faded, with the yield on the bellwether 10-year note reaching 2.10% on October 9. (Price and yield move in opposite directions.) High-yield bonds were notable beneficiaries of the better mood, bolstered by a rebound in oil prices. Fund flows across most fixed-income categories were mixed for the week but remain significantly negative year to date.

TIAA CREF

Financial Services

Equity markets continue to heal in October

Current updates are available here. For additional insights from TIAA-CREF investment professionals, view our Weekly Market Perspective Video.

A light week for U.S. economic reports

In a week with few data releases, U.S. labor markets showed continued signs of strengthening. Among the reports:

- **First-time unemployment claims** fell to 263,000, near a 42-year low, while the less-volatile four-week moving average declined to 267,500.
- **U.S. service sector growth** ebbed in September to 56.9 but remained well above the 50 mark separating expansion from contraction, according to the non-manufacturing index published by the Institute for Supply Management. A similar index from Markit also slowed, to 55.0.
- The **U.S. trade deficit** jumped 16% (to $48.3 billion) in August, as the rising dollar boosted imports while driving down exports to a three-year low. Weaker global demand also weighed on exports.

Outlook

The S&P 500 Index broke through several key technical levels on October 8 and finished above the key 2,000 level for the first time since August 20. This move reinforces our belief that the index is beginning a new uptrend; that said, favorable corporate earnings guidance and economic data releases will be essential to underpinning a meaningful advance from here.

Importantly, the price of oil and other commodities has begun to rebound, and the Energy and Materials sectors performed much better in the past week—all of which could lend a firmer tone to growth prospects. If these trends continue and there is broad-based improvement in commodity prices, we could see the S&P 500 returns to its previous highs. While this is not a consensus view, it's supported by current levels of extremely bearish sentiment, which often presages a rise in equity prices.

There a few caution flags that we are actively monitoring. These include the recent widening in credit spreads, third-party company surveys that have moved sideways after a period of weakness, and weaker U.S. economic releases accompanied by reduced inflation expectations. While we believe these are backward-looking signals that triggered the recent market volatility, they should reverse in order to support a fourth-quarter market advance.

In fixed-income markets, investors await direction from upcoming economic releases out of China and third-quarter earnings reports from U.S. companies. Volatility may increase against the backdrop of a possible debt-ceiling debate in Congress, which still looms, or a potential government shutdown. We currently see greater value in U.S. high-yield bonds compared to emerging-markets debt, as the prospect for rising rates at home—even if the Fed doesn't tighten until 2016— is likely to trigger outflows from the developing world.