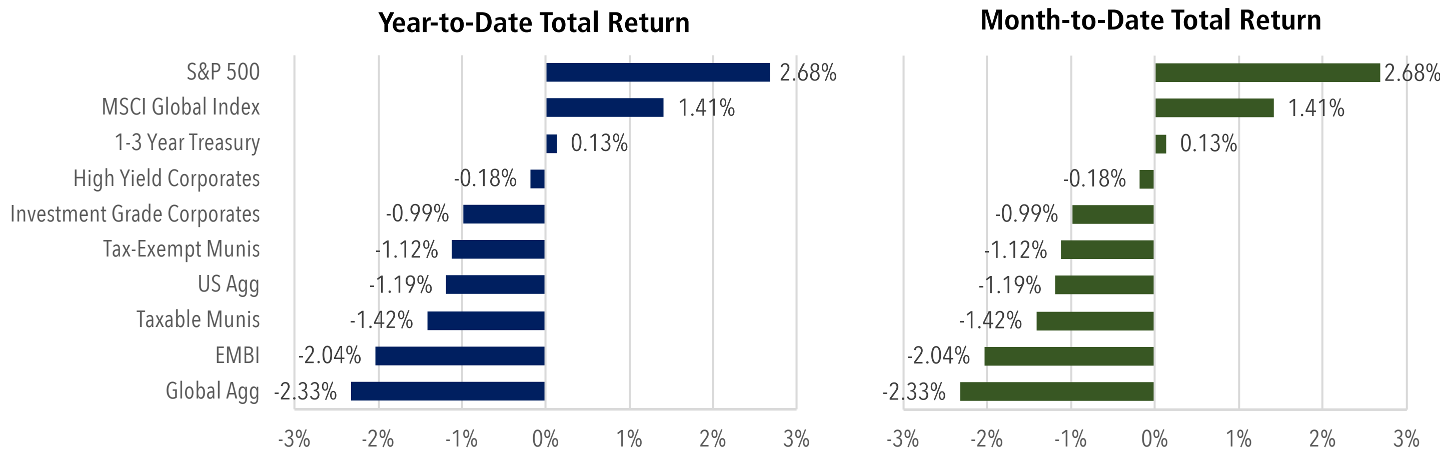
Week Ending: **January 26, 2024**

Necessary But Insufficient

Economic Overview:

According to data released by the Bureau of Economic Analysis, the U.S. economy grew at an annual rate of 3.3% in Q4 2023, well above consensus expectations of 2.0%. More importantly, consumer spending drove much of the outperformance, contributing +1.9 percentage points in Q4 and about 60% of the total GDP growth for the year. In the meantime, the core Personal Consumption Expenditures (PCE) Price Index clocked in at a 2% annual rate over the quarter, right in line with the Fed's target. What does this mean for the March rate cut that bond investors have been hoping for? Well, two percent inflation is a necessary but insufficient reason to cut rates, as the above-trend growth over the last ten quarters may pose an upside risk to inflation. Policymakers would probably like to see a moderation in GDP growth (cooling toward 1%) and a slight uptick in unemployment before concluding confidently that inflation will sustainably hover around 2% to ratify rate reductions.

Total Returns by Asset Class



Source: Bloomberg

Highlights of the Week:

High Yield: High yield has given back some of 2023's performance this year, but income is providing a boost. Elevated yield levels are turning what would have been a -0.58% month-to-date total return into a more modest -0.14% return. As rates and credit spreads remain volatile, we expect income to be an important driver of total returns this year.

Corporates: January primary issuance is on pace to beat January 2017's $175 billion, with $169 billion priced thus far and three more trading days left on the month. The appetite for credit remains strong, with healthy books and minimal concessions across deals. This week's best-performing deal comes from inaugural issuer HPS Corporate Lending, who issued a 5-year bond at an option-adjusted spread (OAS) of +295. The bond is now 25 basis points tighter in the secondary market.

Municipals: LSEG Lipper reported $211 million of inflows for the period ending January 24th, following nearly $900 million the week prior. This highlights a potential turnaround in municipal demand.

Equities: The U.S. equity market rallied for the third consecutive week on positive economic data and better-than-expected corporate earnings results. Market leadership was bifurcated, with communications, energy, and financials leading markets higher, while consumer discretionary, real estate, and health care ended the week lower.

Securitized Products: European securitized markets have kicked off the year strongly. After the challenges of 2022, the Fed pivot in December opened up the market to new issuance, with the Collateralised Loan Obligation and Residential Mortgage Backed Securities markets, particularly, being well received by investors. Despite higher supply and a positive market dynamic, the new issuance has been accompanied by strong spread performance across the board.