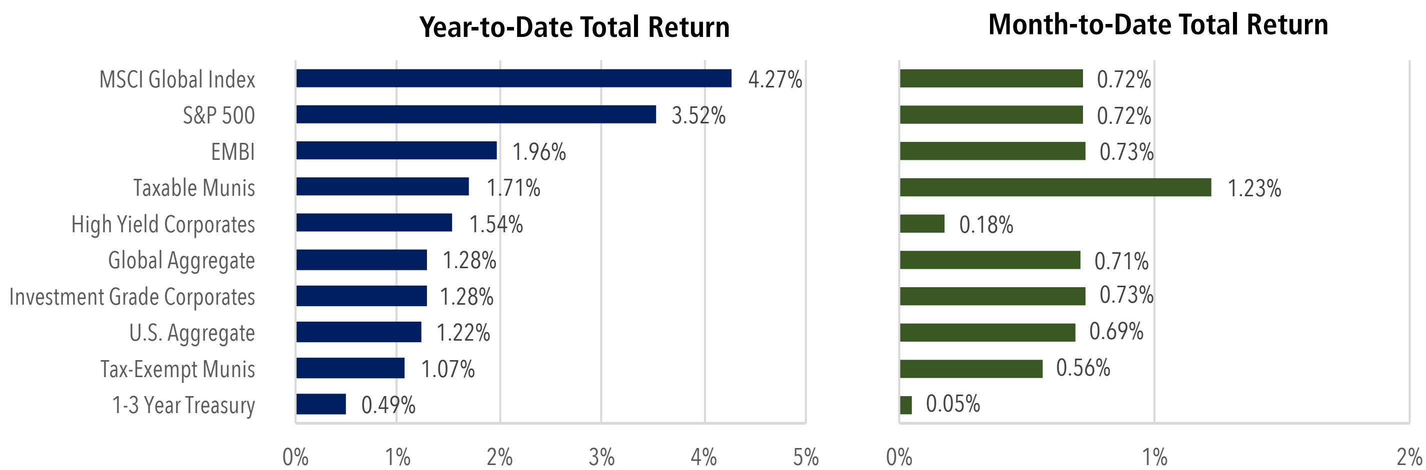
Week Ending: **February 7, 2025**

Capital Gains

Economic Overview:

Perhaps coincidentally, in a week that featured new tariffs, the December 2024 U.S. International Trade in Goods and Services Report from the Census Bureau showed that the U.S. nominal trade deficit surged to an all-time high. "See!" Many American observers might exclaim, "Cheap imports are hampering our domestic production!" But not so fast. A common misconception is that cheap imports detract from U.S. growth. However, U.S. consumers have been benefitting from decades of declining goods prices. Further, finished consumer goods account for only 13% of the monthly import volume, while 73% of U.S. imports are capital goods and industrial supplies, such as equipment and auto parts. Capital goods are key inputs to the U.S. domestic manufacturing process. Indeed, as capital goods imports have marched higher in the "Free Trade Era," so has U.S. industrial output! In other words, world economic activity has become more complex and integrated. And tariffs? Tariffs threaten higher prices and disrupt economic activity, as "tariffed" goods could hamper domestic manufacturing rather than support it.

Total Returns by Asset Class



Source: Bloomberg

Highlights of the Week:

High Yield: High yield delivered a positive return in January, as it has in all but two of the last fifteen Januarys. Long-term investors look through short-term volatility to take advantage of the long-term compounding of high-yield coupon income.

Corporates: It was another strong week of inflows in investment-grade (IG) credit, with $35 billion coming to market despite no deals on Monday as investors weighed the implications of tariffs. Supply was buoyed by several large deals from Foundry JV Holdco ($6 billion), IBM ($4.75 billion), and Pepsi ($3.5 billion). Barring any market volatility, issuance looks to remain strong, with $35-$40bn slated for next week.

Municipals: The Bloomberg Municipal Index recorded a 0.5% return in January, in line with the taxable municipal index's 0.5% performance. However, the high-yield municipal index outperformed both with a return of 0.8%.

Equities: The U.S. equity market ended the week modestly lower on mixed corporate earnings results and tariff concerns. Performance dispersion across sectors increased this week, as consumer staples, energy, real estate, and financials rallied more than +1%, while consumer discretionary and communications fell by more than -2%.

Securitized Products: The CMBS sector started the year strong with healthy issuance across conduit, SASB, and CRE CLO, with Jan-2025 private label issuance 90% ahead of January 2024 levels. Despite robust supply, spreads are marginally tighter than they began the year, a function of healthy investor demand and the attractive relative value of CMBS. Given elevated long-term rates and policy uncertainty under the new administration, cautious optimism remains the tone in CMBS.