Payden&Rygel

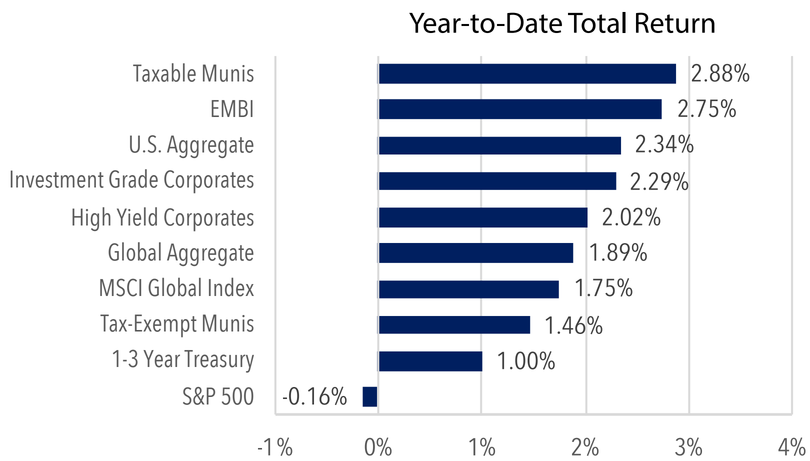
Week Ending: **February 28, 2025**

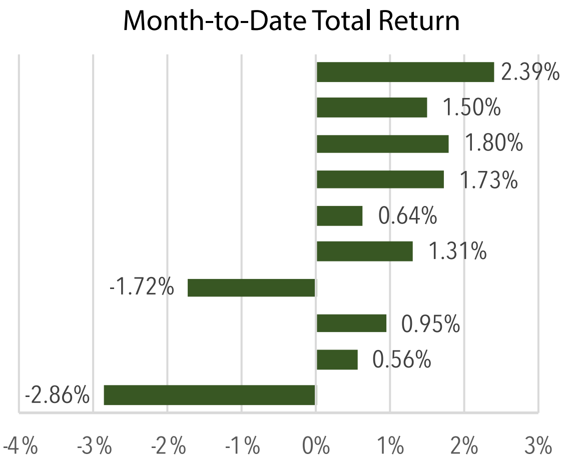
Rent Relief

Economic Overview:

With the focus on political activities in D.C. rather than economic data, the release of the January Personal Consumption Expenditure (PCE) Price Index, the Fed's preferred inflation gauge, did not catch as much attention. Indeed, core PCE in January increased by 0.28% over the month, in line with the expectations that inflation would run hot at the start of the year. But there is good news. Core services excluding shelter, or "super core," registered one of its softest monthly readings in the current cycle. Further, the monthly rate of increase of housing and utilities, the stickiest component of core inflation, averaged 0.3% in the last three months, the softest since 2021 and very close to its long-run average monthly rate. A key reason for the abating shelter costs is market rents, which have been moderating and decreased by 0.2% year-over-year as of Q4 2024. Since market rents and owners' equivalent rents comprise 95% of the housing component, falling market rents mean shelter costs have room to cool throughout 2025, allowing core inflation to ease and giving the Fed more flexibility to support growth if fiscal issues warrant.

Total Returns by Asset Class





Source: Bloomberg

Highlights of the Week:

High Yield: Conditions seem ripe for heavy issuance on the high yield primary market, but supply has been somewhat anemic. This year's $39.7 billion in new supply hasn't even kept up with naturally occurring demand, i.e., calls, tenders, maturities, and coupons, totaling $45.1 billion. We don't think this supply/demand mismatch is likely to last, especially as lower rates have improved new issue economics for issuers even further.

Corporates: We are seeing some softness in investment grade (IG) corporates, with the Bloomberg 1-30yr corporate index widening four basis points to +84. Perhaps it's the $50 billion of issuance this week or the growing growth concerns fueled by the looming tariffs. Whatever the reason, the IG corp market will be tested again next week, with upwards of $70 billion expected to tap the market.

Municipals: LSEG reported positive net inflows into municipal funds for the sixth consecutive week. Last week, municipal funds recorded $785 million in net inflows, with $600 million driven by ETFs. This brings year-to-date inflows to $7.8 billion.

Equities: The U.S. equity market fell for the fourth time in five weeks, as tariff concerns and mixed corporate earnings results by big tech companies weighed on investor sentiment. Growth-oriented sectors (tech, communications) were down by more than 3%, as AI monetization remains a concern. In contrast, cyclical sectors (real estate, financials) returned more than +1.5%, which was helped by improving economic data.

Securitized Products: In commercial mortgage-backed securities (CMBS), heavy new issue supply is being absorbed well by investors across conduit, single asset single borrower (SASB), and commercial real estate collateralized loan obligations (CRE CLO) even amid policy uncertainty and broader macro volatility. The recent rally in US Treasury rates should allow CRE borrowers to lock in attractive fixed-rate financing, similar to what we saw in September and October 2024.