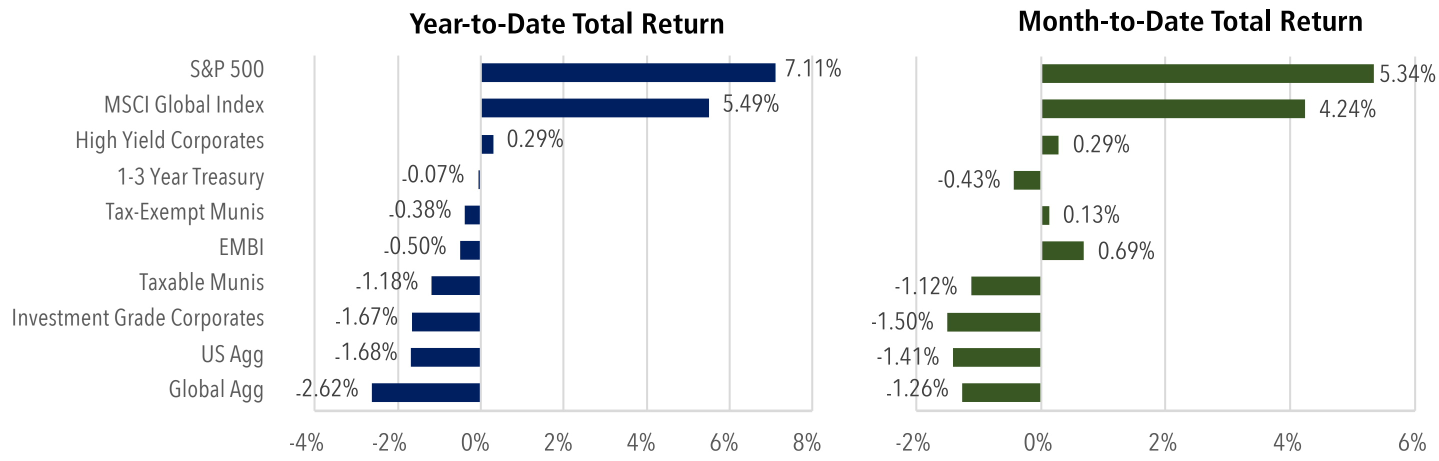
Week Ending: **March 1, 2024**

Halting Progress

Economic Overview:

Earlier this month, a stronger-than-expected January core CPI reading surprised markets, upsetting the recent trend of softer inflation. This week's January core Personal Consumption Expenditures (PCE) Price Index release matched the CPI reading, rising 0.4% over the month. The all-important question is whether January's inflation readings represent bumps along the road to 2% inflation or progress is stalling. It might be too soon to tell. Non-housing services prices, a key component of core PCE to policymakers, accelerated in January. As 57% of the core PCE index, if recent trends continue, non-housing services prices (everything from haircuts to healthcare) alone will contribute 0.2% to the monthly core PCE print. In that event, everything else, from goods to housing, must decelerate sharply to bring overall inflation to the Fed's target. Consequently, as Fed Board Governor Waller has recently remarked, "...the risk of waiting a little longer to ease policy is lower than the risk of acting too soon and possibly halting or reversing the progress we've made on inflation."

Total Returns by Asset Class



Source: Bloomberg

Highlights of the Week:

High Yield: Leveraged loans have returned +1.7% this year, outperforming high-yield bonds by +1.4%. Almost half of that outperformance is attributable to loans' floating rate feature, which has protected loan prices from the impact of higher rates (the 10-year Treasury is +37 basis points higher over the same period). Loans remain an attractive asset class for investors looking to generate yield with de minimis exposure to interest rate risk.

Corporates: Investment-grade issuance continued at a blistering pace this week, finishing the month at $198 billion. The month's issuance is 28% higher than its previous record and 76% higher than the 4-year average for February. Moreover, the year-to-date supply at $388 billion is 30% higher than last year's. However, we are beginning to see some indigestion from all the supply, as corporate spreads have widened seven basis points over the past five days. Still, demand for credit remains robust, with spreads two basis points tighter on the year.

Municipals: New York City's budget surplus in FY 2024 is $2.8 billion higher than Mayor Adams' forecast, reducing pressure to cut services in reaction to exploding costs to shelter migrants. The positive variance stems from an increase of $900 million in anticipated tax revenue this fiscal year and actual costs coming in $1.9 billion below projections.

Equities: The U.S. equity market ended the week at record highs, supported by better-than-expected corporate earnings results and higher oil prices. Market leadership was mixed with consumer discretionary, energy, and technology up more than +1.5%, while health care and utilities were down by more than -1%.

Securitized Products: Mortgage credit investors welcomed a final home price report from Case-Shiller that showed home values rose 5.5% year-over-year in 2023. Home prices increased despite decades-high mortgage rates mainly due to an exacerbated housing shortage spurred by homeowners balking at giving up their 4% mortgage rate for one above 6%. Increased equity-build limits the loss potential for mortgage credit deals in case of a spike in foreclosures.