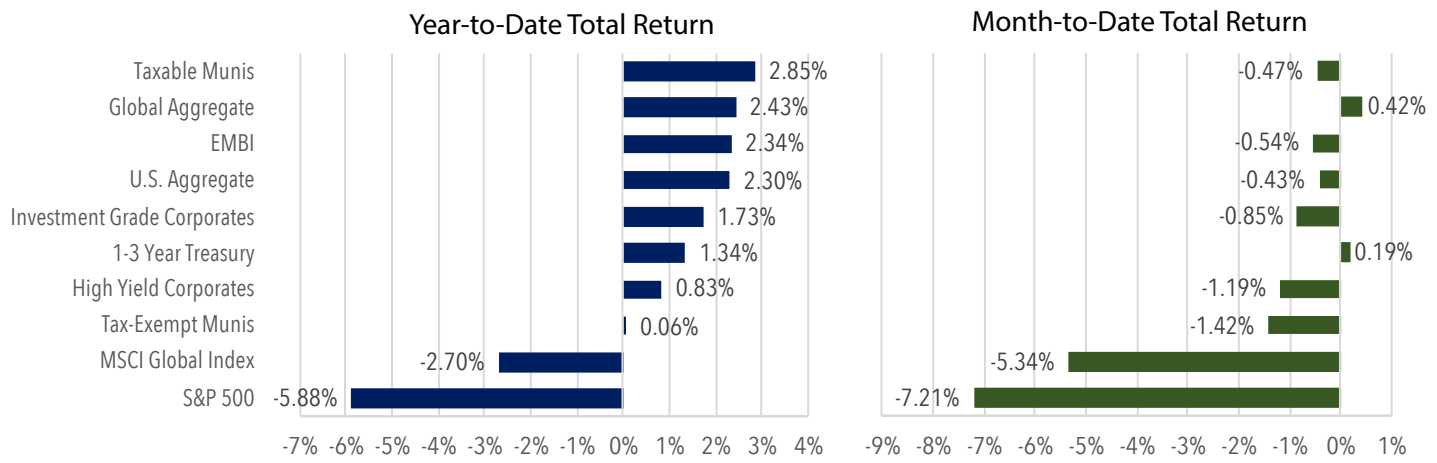
Week Ending: **March 14, 2025**

Course Correction

Economic Overview:

This week, policy uncertainty and growth fears drove a sell-off in the U.S. equity market, ending the best streak of equity gains since the 1990s internet boom. As of market close on Thursday, the S&P 500 Index was down 10.1% from its peak, entering the realm of a "correction," defined as equities down 10% -20% from their previous peak. However, corrections are not rare and don't mean a recession is imminent. In fact, since 1990, we've observed twelve corrections in the S&P 500 without a recession. In other words, if a recession is avoided, equities find their footing and regain prior levels within a year. Recoveries have a median of 145 trading days but have been as short as 80. Despite a litany of negative headlines, we think the U.S. economy can still grow. Last week's February jobs report shows that U.S. consumers are seeing real income growth, with aggregate nominal consumer income increasing 5% year-over-year, outpacing its long-term average of 3.6% and beating inflation. Betting against the U.S.? Remember your stock market history and keep an eye on the macro fundamentals, not just the headlines out of Washington.

Total Returns by Asset Class



Source: Bloomberg

Highlights of the Week:

High Yield: In less than a month, equity volatility and tariff concerns have driven high yield bond spreads 80 basis points wider. However, high yield issuer fundamentals remain healthy, and we do not foresee a material uptick in defaults. Valuations are attractive, and this could be an opportunity to deploy capital.

Corporates: Volatility continues to roil markets as corporate spreads are wider by 10 basis points (bps) on the week at an option-adjusted spread (OAS) of +97 bps, and 17 bps wider on the year. While we saw multiple issuers stand down given the tone, the primary market still saw $36 billion in new issues price, taking issuance to $110 billion month-to-date.

Municipals: Maryland Congressman Andy Harris, leader of the House Freedom Caucus, announced Monday that he predicts Congress will raise the $10,000 cap on SALT (State and Local Tax Deduction) in this year's budget reconciliation bill. This is an indication that deficit hawks will not stand in the way of SALT modifications later this year.

Equities: The US equity market fell for the fourth consecutive week due to continued slower growth concerns and fiscal policy uncertainties. Nearly all sectors posted losses, with consumer staples, communications, and consumer discretionary leading the market lower. On the other side, energy and utilities were the only positive-performing sectors.

Securitized Products: European collateralized loan obligation (CLO) spreads have widened over the past week, with AAA tranches rising by approximately 5-10 basis points. Sentiment remains cautious amid concerns over a growing supply pipeline and escalating macroeconomic pressures. Persistent uncertainty surrounding tariffs, heightened geopolitical risks, and the potential for increased market volatility have all contributed to a more subdued tone. In primary markets, manager tiering has become increasingly pronounced.