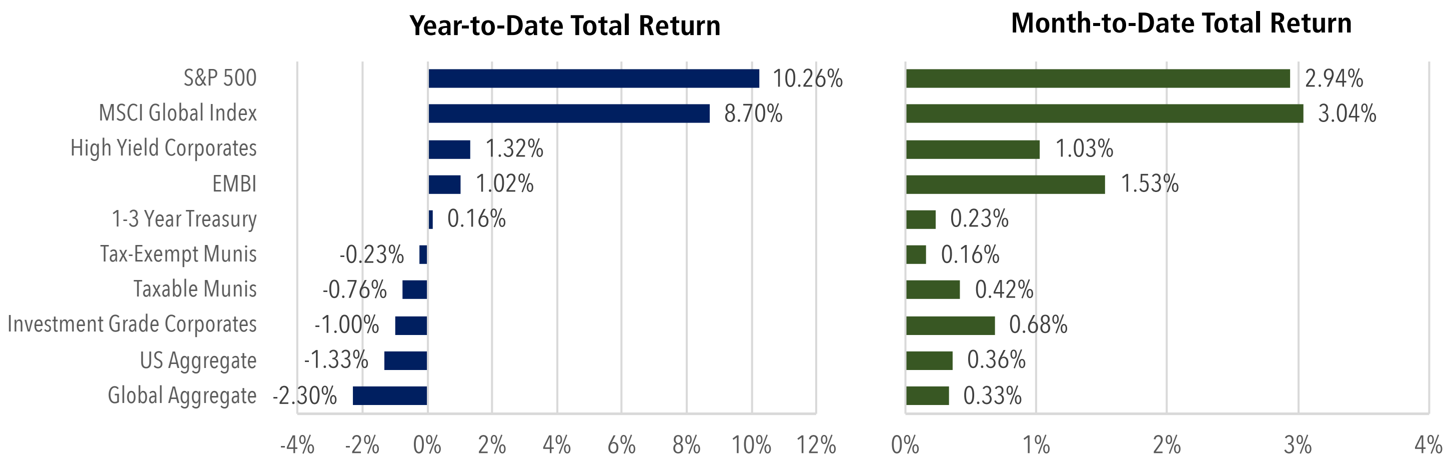
Week Ending: **March 22, 2024**

Lonesome Dove

Economic Overview:

Four times per year, the Federal Open Market Committee (FOMC) refreshes its economic projections. The exercise is less of a forecast and more of a vibe check. According to the March edition, policymakers are more upbeat on growth and the labor market while expecting more inflation than in December. But the market cheered when realizing that the "median" member still penciled in three rate cuts for 2024. Unfortunately, the headline masks just how close the call was. Nine policymakers see two cuts or less, another nine have three cuts (the median), and one lonesome dove imagined four cuts. It was so close that if just one policymaker in the three cuts camp had moved up, the median would have risen to 4.875%, consistent with just two cuts. What about markets? Fed funds futures imply a 4.50% rate by year-end, suggesting bond investors stand with the Committee's lone dove. However, the rest of the committee stands with Board Governor Waller, who said, "The strength of output and employment growth means that there is no great urgency in easing policy."

Total Returns by Asset Class



Source: Bloomberg

Highlights of the Week:

Corporates: This week, there was $28 billion of investment-grade corporate new issue supply, with $26 billion coming at the start of the week as issuers rushed to market before Wednesday's FOMC rate decision. Demand remains healthy for corporates, keeping spreads compressed, with the Option-Adjusted Spread (OAS) reaching a new year-to-date low of 88 as of Thursday's close.

Municipals: U.S. Census data shows New York City lost almost 87,000 residents last year, taking the total decline to nearly half a million since April 2020.

Equities: The U.S. equity market rallied sharply for the week, supported by continued optimism surrounding artificial intelligence's growth prospects and a dovish-leaning Fed. Nearly all sectors posted gains, with communications, industrials, and technology leading markets higher, while materials, health care, and real estate were the market laggards.

Securitized Products: Spreads remained firm in mortgage credit, rallying with bonds and equities on the heels of the FOMC meeting. Freddie Mac tendered $1.5 billion of seasoned Credit Risk Transfer (CRT) bonds last week. Year-to-date CRT net issuance remains low at $0.8 billion, supporting risk premiums.