

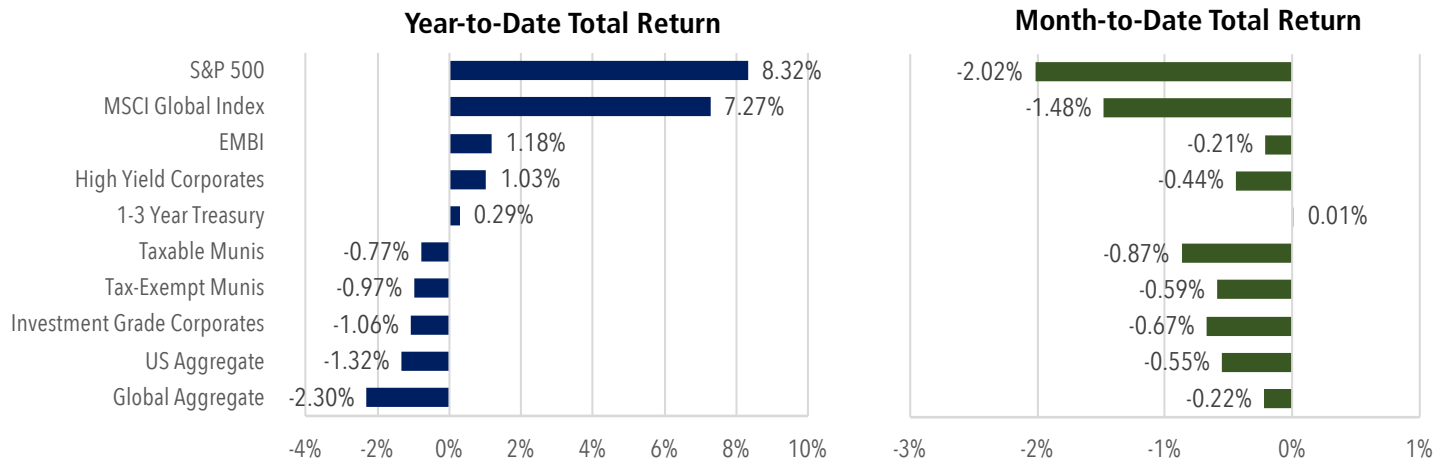
Week Ending: **April 5, 2024**

Goods News

Economic Overview:

This week, the Institute for Supply Management's (ISM's) Manufacturing Purchasing Managers' Index (PMI) for March surged above 50, signaling expansion in the goods sector for the first time since September 2022 (17 months!). The March ISM corroborates a similar gauge of U.S. manufacturing activity tabulated by S&P Global that turned positive at the start of the year. Perhaps more interesting, with the ISM survey dating back to 1968, acceleration in the goods side of the economy tends to bode well for growth. For example, in the nine other post-war cycles for which we have the data, when the ISM manufacturing survey breaks back above 50 after consecutive negative readings, either a recession is already underway (as was the case in 1980 and 2008) or a recession is far in the future—an average of 50 months (or about 4.5 years) ahead. [Has another plank in the bearish narrative evaporated?](#)

Total Returns by Asset Class



Source: Bloomberg

Highlights of the Week:

High Yield: Secured bonds now represent 33% of the high yield universe, up from just 17% pre-pandemic. In the long term, this dynamic should have a favorable impact on recovery rates.

Corporates: Despite the pick-up in rate volatility over the last few weeks, corporate spreads have remained resilient at an Option-Adjusted Spread (OAS) of +90 basis points in six out of the previous eight sessions and are now nine basis points tighter on the year. Despite corporates looking rich on a spread basis, flows into the asset class and higher all-in yields, which are now at 5.37%, continue to drive the demand for corporates.

Equities: The U.S. equity market ended the week lower on concerns of higher interest rates due to continued robust economic data and increased geopolitical risk in the Middle East. Nearly all sectors posted losses for the week, with health care, real estate, and consumer staples leading markets lower, while energy, communications, and materials were the best-performing sectors.

Securitized Products: The Commercial Mortgage-Backed Securities (CMBS) market roared back to life in Q1 2024, with issuance significantly outpacing its Q1 2023 levels. In line with our views on the sector, the robust rally in Q1 for spreads has recently come to a halt as investors reconsider the future path of interest rates amid the recent hotter-than-expected inflation data. Meanwhile, the new issue market remains active across the conduit, Single-Asset Single-Borrower (SASB), and Commercial Real Estate Collateralized Loan Obligations (CRE CLO) space. Active issuance in other markets is a testament to the attractive relative value that CMBS offers today.