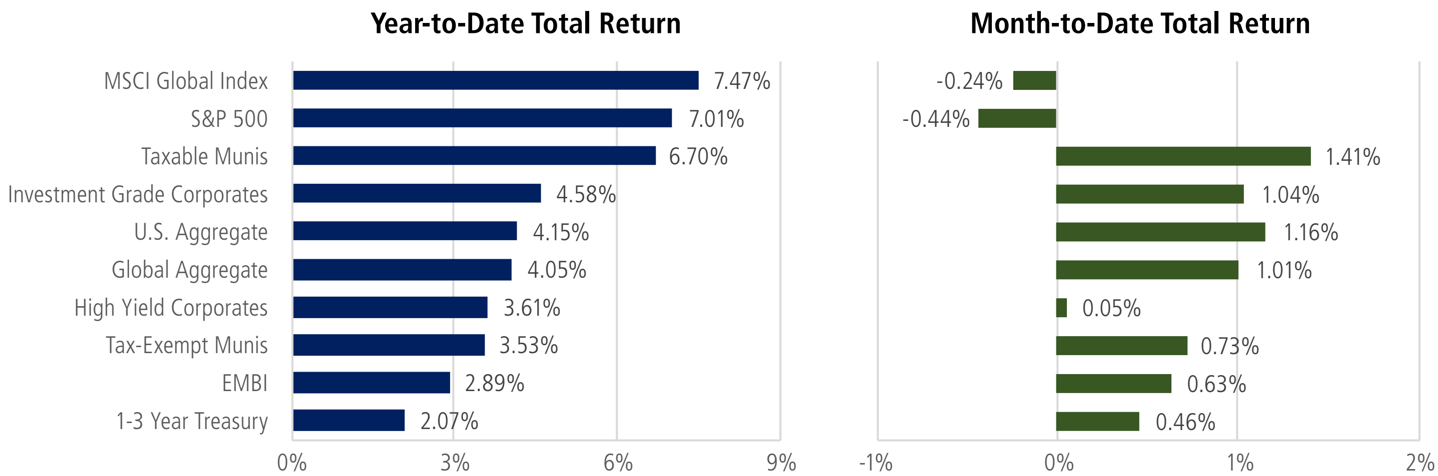
Week Ending: **April 7, 2023**

Over A Barrel

Economic Overview:

This week, the March U.S. ISM manufacturing purchasing managers index (PMI) tumbled to 46.3 (below 50 signals contraction in the sector). Within the report, the prices-paid category drew the most attention from the bond market. Prices-paid fell to 49.2 from 92.1 at its highs, and many interpret the continued drop as a sign of easing inflation pressures that may allow the Federal Reserve to pause and pivot to cuts. But relying on the prices-paid index to shape your Fed view might be risky. First, the $35 drop in the price of a barrel of oil over the last year is a key driver of the drop in manufacturing input prices. But, we know oil prices are volatile, and in light of OPEC's unexpected move to cut supply last the weekend, they could move higher. Second, the Fed needs to see more than just a drop in input prices to justify a pivot. Policymakers seek a softening in the labor market. If March's Employment Situation report is any sign, the Fed's work is probably not yet done.

Total Returns by Asset Class



Data as of market close on Wednesday

Source: Bloomberg

Highlights of the Week:

High Yield: High yield supply and demand technicals are balanced this year. $39 billion in tenders, calls, and maturities have absorbed nearly all of this year's $41 billion in new issuance, while $26 billion in coupons have more than offset $16 billion in fund outflows.

Corporates: After softer-than-expected economic data this week, rates have rallied. Investment-grade corporate spreads widened a few basis points to an OAS of 140. New issue supply remains relatively light, albeit around the lower bound of dealer estimates. Some issuers even stood down amidst the rates rally, and those that came to market failed to garner interest.

Securitized Products: The first quarter of 2023 saw a total issuance of around $34 billion in the US CLO space, compared to $51 billion over the same period last year. The spreads of US CLO AAAs to single As tightened by the end of the first quarter, despite broader market volatility. BBBs and BBs were marginally wider. High-quality mezzanine CLO bonds have stayed relatively firm given the low supply year to date.

Municipals: Last month was the best-performing March for municipal bonds since 2008. The Bloomberg Municipal Bond Index generated a monthly total return of 2.22% with a year-to-date return of 2.78%. In comparison, the Bloomberg Taxable Municipal Bond index produced a 2.49% return for the third month of the year and an impressive 5.21% return year-to-date.

Equities: The U.S. Equity market ended the week unchanged ahead of Friday's unemployment report. Defensive sectors (utilities and health care) and energy were the best performers, while cyclical sectors, materials, consumer discretionary, and industrials, were the worst performers.