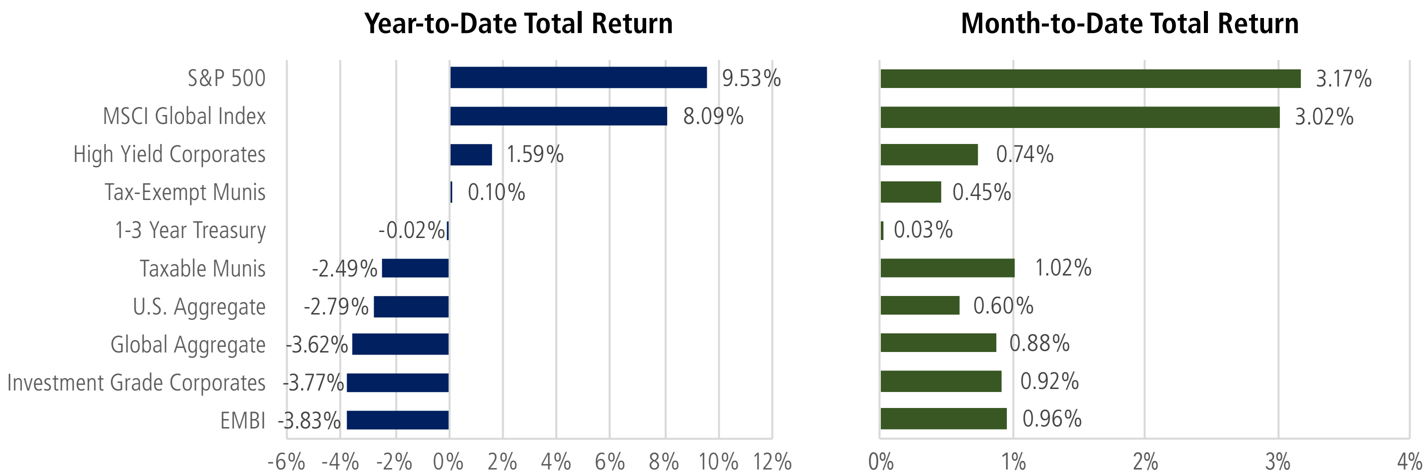
Week Ending: **April 9, 2021**

Well Below

Economic Overview:

The IHS Markit Composite U.S. Purchasing Managers' Index (PMI) rocketed to 63.7 in March—a record high. The last time the composite PMI reached similar lofty levels, the Fed was hiking. Inquiring minds wonder: Will the Fed soon pivot? Unlikely. Minutes from the March Federal Open Market Committee (FOMC) meeting did not include a single reference to "taper." Instead, participants remained united in the view that, "economic activity and employment were currently well below levels consistent with maximum employment." This observation is consistent with the data released this week in the Job Opening and Labor Turnover Survey (JOLTS), which revealed a shortfall of nearly 9 million jobs for the 12 months ending February. Speaking at the IMF Spring Meetings on Thursday, Fed Chair Powell acknowledged the nearly 1 million jobs added in March but said we would need to see "a string of months like that" to make a dent in the employment shortfall. Given the jobs deficit, investors should temper expectations for a policy pivot for "some time" still.

Total Returns by Asset Class



Source: Bloomberg

Highlights of the Week:

- **High Yield:** The record setting high yield new issuance we saw in the first quarter has not slowed at the start of the second, with the vast majority coming from refinancing. Thankfully, the market has not had the "indigestion" issues typically associated with heavy net new issuance. Plus, refinancing near all-time lows in yields is fundamentally positive for companies because they're retiring higher coupon debt thereby improving cash flow and interest coverage.

- **Corporates:** Treasury Secretary Janet Yellen called for a global minimum corporate tax rate this week arguing that the move would bring stability and a level playing field for all countries. Currently, more than 100 countries are in talks to bring the idea to fruition and would benefit the U.S. materially as Biden's new infrastructure plan would raise the corporate tax rate from 21% to 28% while also raising tax on U.S. companies' foreign earnings from 10.5% to 21%.

- **Securitized Product:** The phrase, "Thank you for calling Domino's, may I take your order?" is on the decline, as over 70% of sales at the leading U.S. pizza franchiser now come from digital channels. Domino's has more than 17,000 stores in over 90 domestic and international markets, enjoying 17% overall global market share in fast food pizza. Investors welcomed Domino's whole business security (WBS) offering this week as it was backed by franchisee royalty fees and offered an attractive yield north of 2.5%.

- **Municipals:** On Monday, the Senate parliamentarian ruled that Congress can pass additional reconciliation bills this year. Driven by the Biden Administration's infrastructure plan, the probability of provisions similar to the 2009 era Build America Bond (BAB) program has greatly increased. If resurrected, states and counties would be able to float taxable municipal debt to address infrastructure needs with interest costs subsidized by the federal government.

- **Equities:** The U.S. equity market rallied this week following the robust jobs report released last Friday, which offset rising concerns of higher corporate taxes. Similarly to last week, growth-oriented sectors such as tech, consumer discretionary, and communications led markets higher, while energy gave back some of its year-to-date gains.