

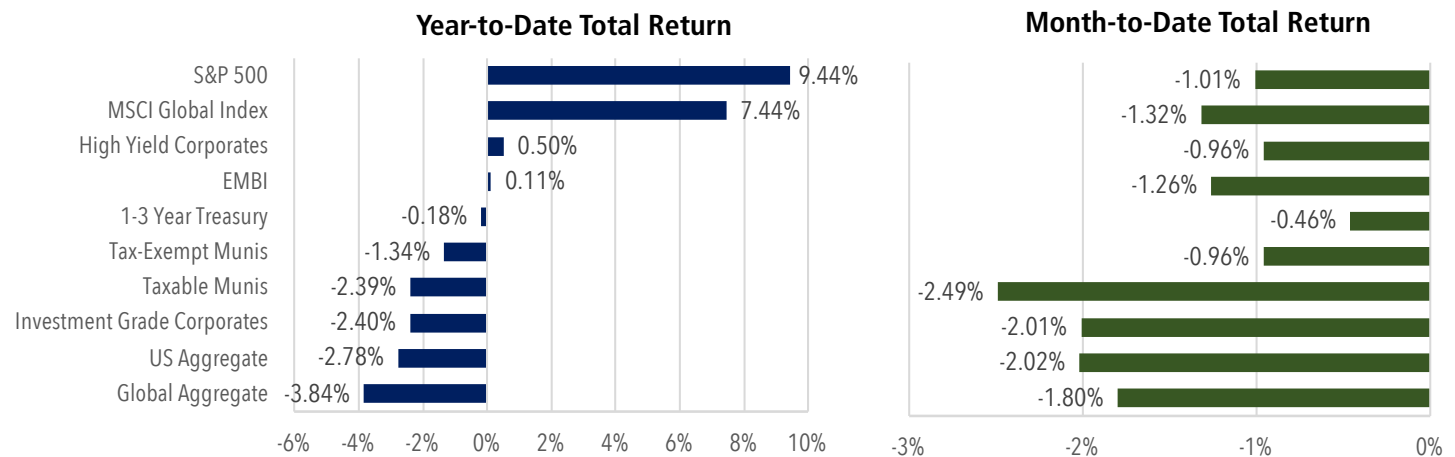
Week Ending: **April 12, 2024**

Plausible Path

Economic Overview:

The ECB would like to cut rates soon. That's our takeaway from this week's Governing Council meeting in Frankfurt. The ECB held rates steady but signaled they could cut in June if incoming data "increase its confidence that inflation is converging to the target in a sustained manner." Euro area core inflation has slowed down much faster than in the U.S. For example, core HICP decelerated from nearly 6% a year ago to 2.9% as of March 2024. The 6-month average of the monthly core inflation rate also remains on-trend, compared to a recent re-acceleration in the U.S. Further, growth in the euro area has also been weaker, as household income growth and consumer spending remain soft. So, the case for a rate cut from the ECB is far more compelling than the Fed's. However, to ratify a rate cut in June, policymakers want to see inflation trend back toward the projected path. [We plotted a few scenarios, and it turns out the June rate cut path is plausible—but we'll need to watch the April and May data closely.](#)

Total Returns by Asset Class



Source: Bloomberg

Highlights of the Week:

High Yield: High yield has absorbed this year's 70 basis point rate increase, generating a positive return thanks to tighter spreads and steady income generation. Income should continue to help offset persistent rate volatility.

Corporates: While rates sold off on hot inflation data, corporate spreads remained compressed as the Option-Adjusted Spread(OAS) on the index tightened to a new year-to-date low of 87 and stayed there throughout the week. Amidst the rise in rates, some issuers held off coming to market, though there was still \$19 billion of new issue supply, meeting dealer expectations for the week.

Municipals: According to the real estate data firm ATTOM, U.S. homeowners paid more than \$4,000 in property taxes on average in 2023 as total levies rose the most in five years. The data, which tracked 89.4 million single-family homes, underscored that governments collected \$363 billion in property taxes in 2023, a 6.9% rise following an increase of 3.6% in 2022. The highest effective property tax rates in 2023 were levied in Illinois, New Jersey, Connecticut, and New York.

Equities: The U.S. equity market posted losses for the second consecutive week as hotter inflation data and escalated tensions in the Middle East weighed on market sentiment. Nearly all sectors posted losses for the week, with financials, real estate, and healthcare leading markets lower, while energy, technology, and communications were the best-performing sectors.

Securitized Product: U.S. home prices continued to exhibit strength in the first quarter, increasing at a 3% annualized rate. A shortage of home inventory remains the key driver for home price appreciation due to affordability pressures, with primary mortgage rates hovering near 7%. Meanwhile, housing supply shows signs of loosening, with home listings up 9% compared to a year ago. That said, the housing market likely has ample room to absorb more supply.