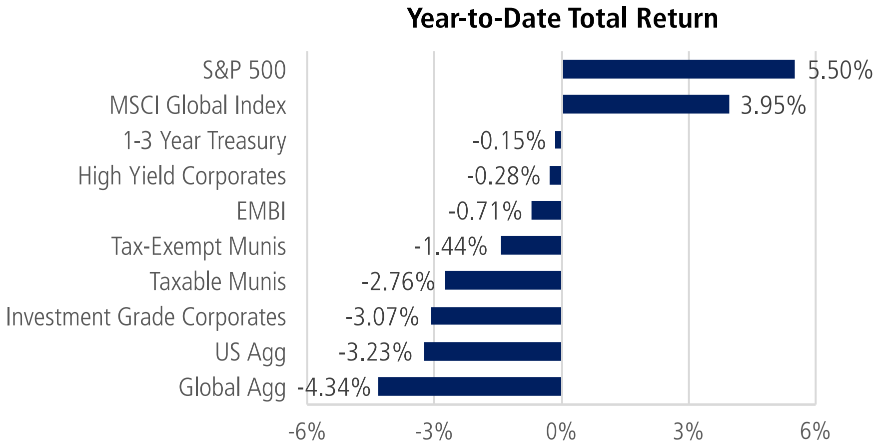
Week Ending: **April 19, 2024**

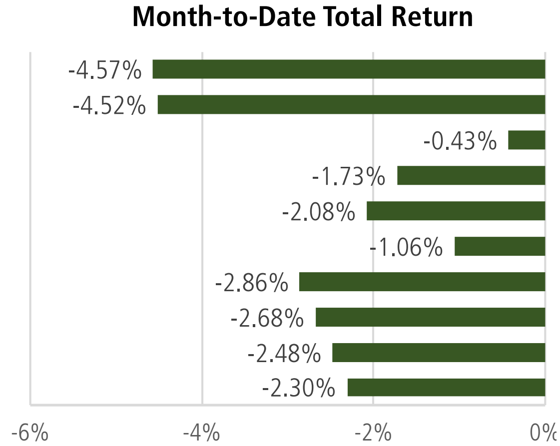
O(.1%) Canada!

Economic Overview:

This week, Federal Reserve Chair Jay Powell joined Bank of Canada (BoC) Governor Tiff Macklem at the Wilson Center in Washington D.C. to discuss the U.S.-Canada relationship and, specifically, the similarities and differences between the two neighboring economies. Governor Macklem highlighted the close ties between the two countries in trade, as the U.S. is the end consumer of 76% of Canadian exports, including Chair Powell's favorite Canadian export—Canadian comedians like Jim Carrey and Martin Short! Moreover, the two central banks undertook similar monetary policies and have been on hold since July 2023. However, recent inflation trends have diverged. In the U.S., three months of above-trend inflation suggests policymakers will likely hold higher rates for longer. Whereas Canada has enjoyed three months of below-trend inflation, with this week's release of March core CPI falling to 2.9%, within the BoC's target range (1-3%). If the "good data" continues, in the words of Macklem, rate cuts in June are "within the realm of possibility." O Canada!

Total Returns by Asset Class





Source: Bloomberg

Highlights of the Week:

High Yield: Concerns around rising rates have driven fixed-income markets this month, but bank loans have weathered rate volatility better than other asset classes, posting a positive return when most asset classes suffered. This is primarily due to their floating rate feature, but also because of continued optimism around economic growth. A higher-for-longer rate environment coupled with strong growth is a positive backdrop for bank loans.

Municipals: Moody's recently upgraded its Aa3/Stable rating on Los Angeles Unified School District's General Obligation debt to Aa2/Stable, citing the district's "consistent financial performance driven by conservative budgeting practices" and "multiyear planning that will support satisfactory finances as the district spends down its final pandemic-related grants and adjusts to slowed state aid growth" for the positive rating change. Similarly, S&P Global rates the district's GO bonds AA-/Stable.

Equities: The U.S. equity market posted losses for the third consecutive week as higher rates, geopolitical concerns in the Middle East, and mixed corporate earnings results weighed on market sentiment. Most sectors posted losses for the week, with technology, consumer discretionary, and real estate leading markets lower, while utilities, consumer staples, and financials were the best-performing sectors.

Securitized Product: Overwhelmingly positive technicals keep European CLOs and leveraged loan prices firm. However, it's questionable how long levels can remain decoupled from broader market gyrations should the weakness persist. Moreover, higher-for-longer rates may pressure leveraged borrowers if growth doesn't grow in tandem.

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