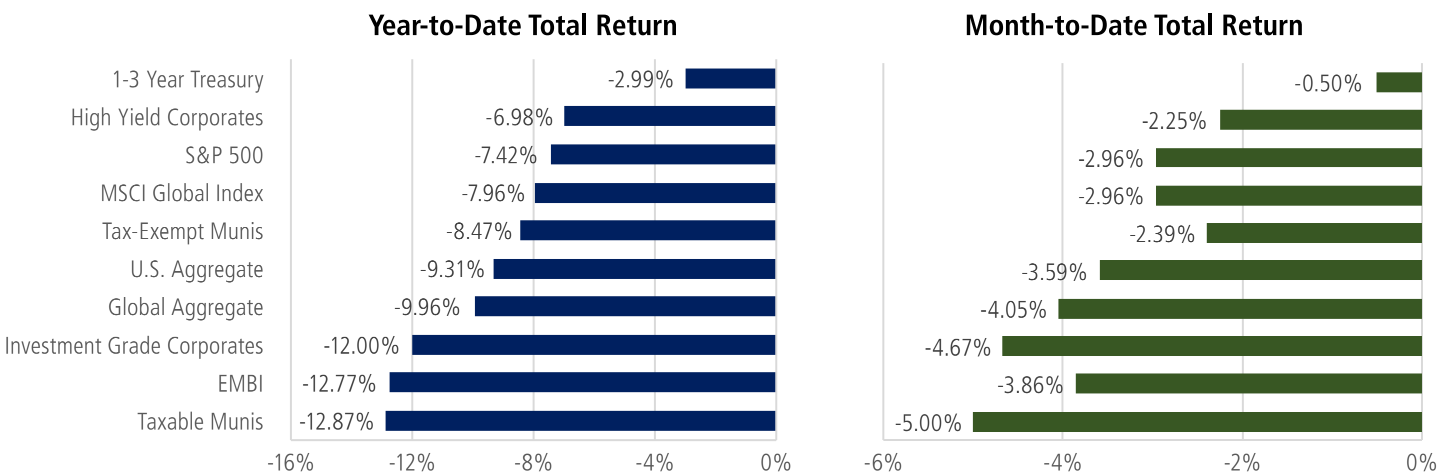
Week Ending: April 22, 2022

Forecasting Foibles

Economic Overview:

The International Monetary Fund (IMF) slashed its forecast for global economic growth again this week after cutting growth projections at the start of the year. A rapid downshift in the global growth outlook might have induced a government bond market rally in normal times. There was no such luck around this time, thanks to inflation, which is now expected to end the year higher than previously forecast. Many central banks have already acted to combat the rise in prices. Federal Reserve policymakers hinted that multiple 50-basis-points rate hikes were in the cards. Chair Powell argued for policy tightening to be "front-loaded," and San Francisco Fed President Mary Daly expressed a desire for the policy rate to reach "neutral by year-end." Even policymakers at the European Central Bank, long a holdout on rate hikes, hinted rises could arrive later in the year. That leaves only the Bank of Japan, which reiterated its intention to buy "unlimited" amounts of government bonds to defend its yield curve target. Some things never change.

Total Returns by Asset Class



Source: Bloomberg

Highlights of the Week:

- **High Yield:** Leveraged loan investors should benefit from rising rates as loan coupons float with rates. However, investors should be vigilant for loan issuers with especially high leverage and tight cash flows. For these issuers, higher interest costs are a material credit risk. Active management in loans will be critical as the Fed becomes increasingly hawkish and rates respond in kind.
- **Corporates:** This year's theme for Earth Day is "Invest In our Planet." Investors and corporations alike have become increasingly aware of their ESG footprint. As a result, we have seen U.S. investment-grade corporations issue more Green, Social & Sustainability (GSS) bonds over the years. Last year we saw $81 billion GSS bonds issued, while year-to-date there has been $24 billion issued—$1 billion more than this time last year. This year, the utilities sector makes up 31% of issuance while financials are in second place at 19%.
- **Securitized Products:** U.S. collateralized loan obligations (CLOs) were among the best performers in the fixed income space in the first quarter. Month-to-date spreads have held in relatively well despite the broader market volatility. While secondary supply remains robust, CLO primary issuance year to date is down more than 50% compared to the same period last year. AAA placement remains the biggest challenge in the primary market.
- **Municipals:** Municipals continued to play defense this week, as the backdrop of an increasingly hawkish Fed, elevated bid-wanted activity, and fund outflows pushed yields higher and spreads wider. Lipper Refinitiv reported outflows of $3.5 billion from muni funds for the most recent reporting week. While short-term selling pressure will likely remain, we believe current rates represent a long-term buying opportunity, particularly for investors in the top tax bracket.
- **Equities:** The equity markets fell for the third consecutive week as corporate earnings results and uncertainty regarding Fed policy drove a pickup in market volatility. Sector performance was mixed with energy and communication leading markets lower, while real estate and consumer staples posted gains.