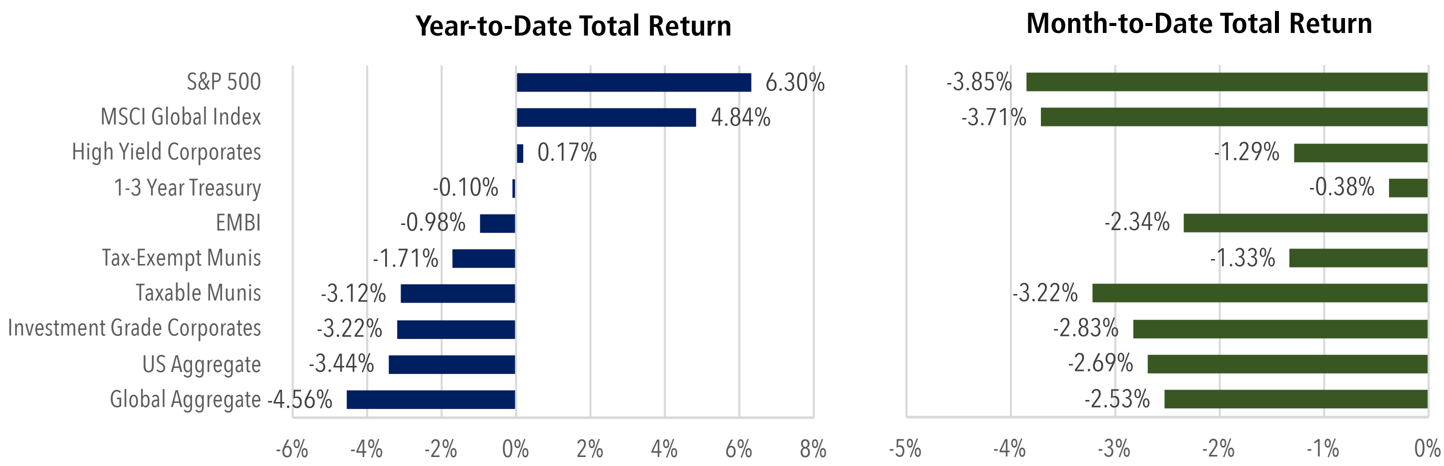
Week Ending: **April 26, 2024**

Inflated Fears

Economic Overview:

The U.S. economy grew at a 1.6% annualized rate in Q1, below expectations, while the core Personal Consumption Expenditures (PCE) Price Index clocked in at 3.7% annualized. Consequently, whispers of "stagflation" circulated in markets. However, we saw evidence of continued (if not exceptional) U.S. economic strength. First, consumer spending on services contributed the most to GDP in any quarter since 2021. Second, housing investment rose by 14% in Q1—better than any quarter from 2013-2019. So, what detracted from growth? A surge in imports that outpaced exports shaved 86 basis points from topline growth. But we view this as a sign of U.S. consumer strength not weakness. Inventory investment also detracted 35 basis points, but it is often volatile. Real Final Sales to Private Domestic Purchasers, a gauge of underlying demand that excludes trade, inventories, and government spending, registered a 3.1% annualized growth rate. To investors worried about growth, we'd say the fuss is overdone. As for inflation? We can't help you there—we're also still worried.

Total Returns by Asset Class



Source: Bloomberg

Highlights of the Week:

High Yield: The risk of rates remaining higher for longer is being priced in across markets. One indicator is relative fund flows in high-yield bonds, a fixed-rate asset class, versus leveraged loans, which are floating-rate assets. The fixed-rate asset class has seen $5.2 billion in outflows over the past two months, while floating-rate leveraged loans have seen $4.3 billion in inflows over the same period.

Corporates: Given the earnings blackout period and the continued backup in rates, it was a quiet week within the primary market with just $12 billion in pricing. The month-to-date issuance totals $88 billion, well short of the average of $142 billion in April across the past four years. Investment grade funds also saw its first weekly outflow after 25 consecutive weeks of inflows entirely driven by mutual funds.

Municipals: Following last week's $1.5 billion outflow, LSEG Lipper reported a return to municipal fund inflows this week totaling about $200 million, as $588 million of ETF inflows more than offset $386 million of open-end fund outflows.

Equities: After a tech-heavy earnings week, the U.S. equity market ended higher for the first time this month. Companies such as Google and Microsoft showed a clear message that the investment in AI is paying off. All sectors posted gains for the week, with technology, consumer discretionary, and communications leading the markets higher, while energy, health care, and materials were the market laggards.

Securitized Product: The Collateralized Loan Obligation (CLO) market saw steady new issue volume and healthy secondary trading this week. The floating rate sector continues to benefit from the shift in the market view towards rates being higher for longer. With short benchmark rates still north of 5%, AAA-rated CLOs yield between 6.0% - 6.5%. The sector also benefits from US and Japanese bank demand and retail CLO ETF growth.