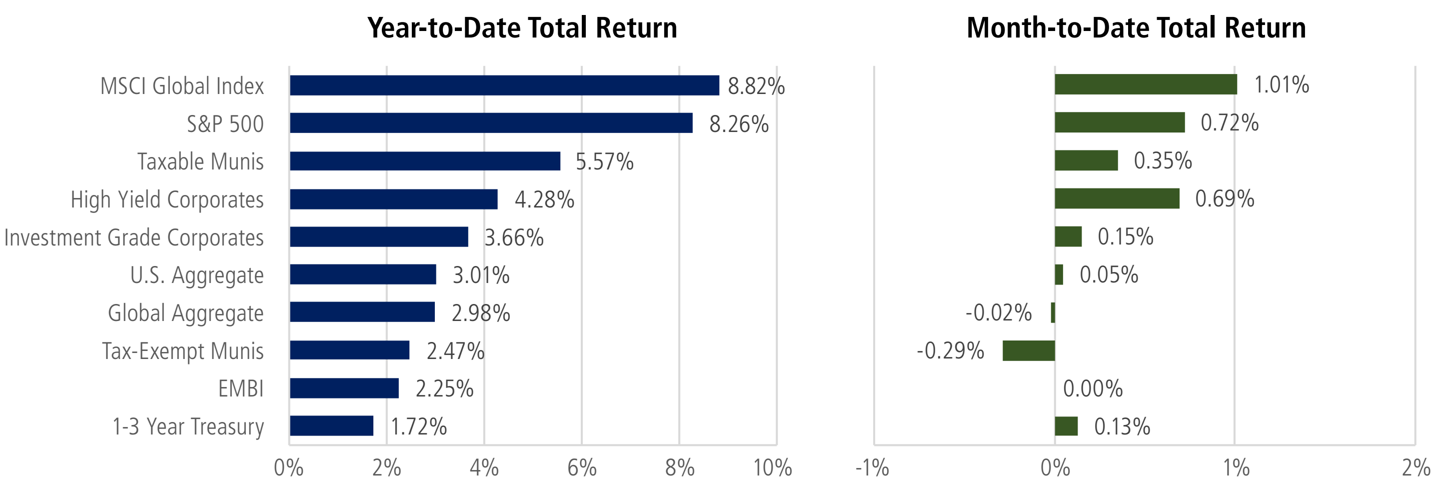
Week Ending: **April 28, 2023**

Under Pressure

Economic Overview:

Last week we detailed the U.S. Treasury's dwindling cash and uncertainty about the "X date"—the day the Treasury runs out of money. This week we explore the market reaction. A quick glance at equities, and you may wonder, "Why bother?" But, recently, money market investors have shunned Treasury bills maturing this summer (near the "X date") in favor of shorter maturities (e.g., 1-month bills). As a result, one-month bill yields tumbled to 3.3%, while 3-month yields remained near the Fed's target. As a result, the average weekly yield difference between the 3-month T-bill and 1-month T-bill rose as high as 153 basis points——the widest spread since 2008. Although the spread narrowed this week, it remains wide, exhibiting investor anxiety about the debt ceiling. For now, the U.S. Treasury market finds itself circling in a holding pattern dictated by air traffic control (U.S. Congress). While landing is becoming imperative, a deal to raise the debt ceiling remains elusive. If the 2011 debt ceiling crisis is a guide, it's only a matter of time before the broader financial markets pay attention.

Total Returns by Asset Class



Source: Bloomberg

Highlights of the Week:

High Yield: After standing on the sidelines in March, bond and loan issuers re-entered the primary market in April to issue new debt for various purposes, including refinancing and M&A. This pattern, characterized by alternating periods of low primary market activity and opportunistic new issuance during market strength, is expected to continue throughout 2023.

Corporates: This week, Microsoft, Alphabet, Meta, and Amazon reported earnings, surprising many by handily beating both top and bottom-line expectations amid inflation and economic slowdown concerns. Alphabet had the highest top-line performance, surpassing expectations by 22% at $69.79 billion, while Amazon outperformed earnings with a 48% increase and an EPS of $0.31.

Securitized: Spreads tightened marginally in CMBS secondary markets this week, as investors weighed equity-risk sentiment against negative headlines. The primary market remains dormant, with no new deals and an 83% decrease in year-to-date issuance volumes compared to 2022.

Municipals: At FYE 2022, 37 states recorded historically high reserve levels, and state and local government revenue reached all-time highs in Q1 2023. The high reserve levels and revenues suggest potential municipal credit strength for 2023 despite an anticipated economic downturn.

Equities: The U.S. equity market finished the week slightly higher, buoyed by better-than-expected earnings from mega-cap tech companies. Communications, technology, and real estate sectors performed best, while health care, industrials, and utilities lagged behind.