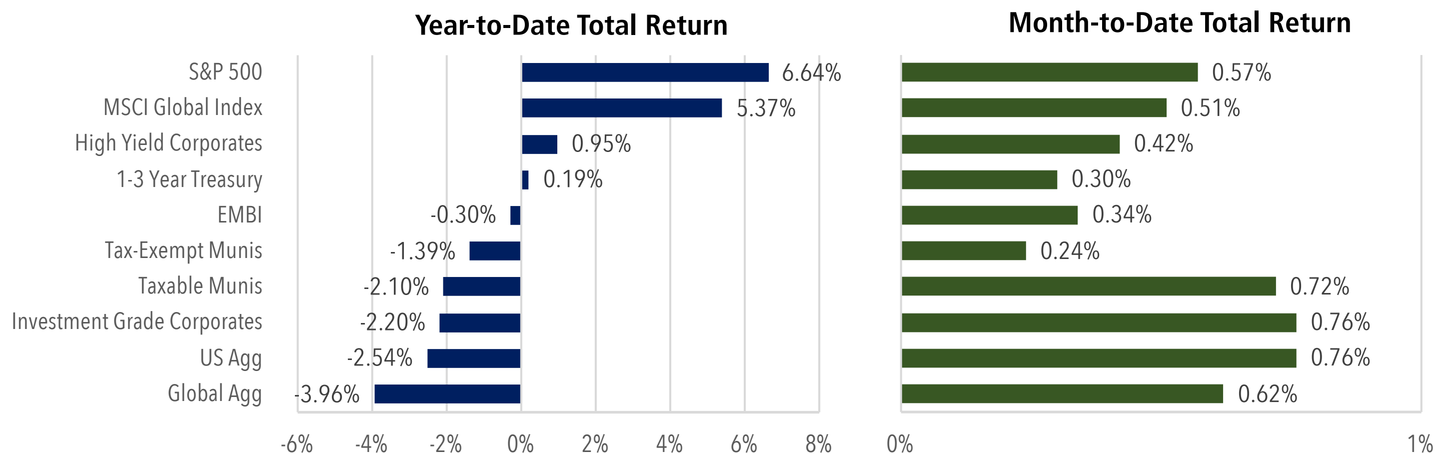
Week Ending: **May 03, 2024**

Go Your Own Way

Economic Overview:

While traveling in Europe last week, we fielded questions about the impressive resilience of the U.S. economy, especially relative to Europe. Indeed, the U.S. economy grew 3.1% in 2023, while the growth in the euro area was almost flat. One possible reason for the divergence is that U.S. households have been more insulated from higher rates than their European counterparts. However, data released in Europe this week showed the euro area real GDP increased at a 1.3% annualized rate in Q1, which was above expectations and the fastest growth rate since Q3 of 2022. Notably, Germany, where growth contracted in Q4 2023, bounced back (+0.9% annualized), while Italy and Spain continue to post solid growth. What's more, April inflation data showed that euro area core inflation continues to cool. Consequently, the ECB is likely to cut rates this summer. If the ECB goes its own way while the Fed stays on hold, will the euro suffer? Better economic growth should boost the currency and offset the downward pressure caused by rate differentials.

Total Returns by Asset Class



Source: Bloomberg

Highlights of the Week:

High Yield: So far this year, $184 billion in leveraged loans have been repriced, compared to only $79 billion of repricings in 2022 and 2023 combined. While loan yields remain high due to higher rates, discount margins have compressed, and loan prices have risen due to solid economic fundamentals and better-than-expected corporate earnings. This environment has allowed loan issuers to reduce interest costs and extend maturities, which bodes well for the long-term financial health of the loan universe.

Corporates: Less than one week after Moody's downgraded it to Baa3 and placed it on the cusp of a junk bond rating, Boeing tapped the debt market for the first time since early 2021 for $10 billion across six tranches. Demand was incredibly strong, with the final combined books being $71 billion or 7.1x. Despite the deal tightening 35-40 basis points from the initial price talk, demand within the secondary market also remained robust, with bonds tighter by as much as 20 basis points.

Municipals: The Bloomberg Municipal Index recorded a total return of -1.2% for April, while the High Yield (HY) Municipal Index posted a return of- 0.6%. Year-to-date, the Investment Grade(IG) Municipal Index has fallen 1.6%, while the HY Index has increased 0.9%. The US Taxable Muni Index recorded a return of -3.5% in April and is down 3.9% year-to-date.

Equities: The U.S. equity market ended the week higher, driven by strong corporate earnings results, a less hawkish Fed, and lower interest rates. Sector leadership was mixed with utilities, consumer discretionary, and real estate leading markets higher, while energy, communications, and financials were the market laggards.

Securitized Product: Performance in residential credit mortgage-backed securities remains strong despite primary mortgage rates over 7%, presenting affordability challenges to prospective homeowners. However, sustained consumer fundamentals and low net supply have supported home prices. Recently, Fannie Mae completed its first tender of the year, retiring almost $1 billion of credit risk transfer bonds, supporting risk premiums near levels we haven't seen since the Fed began tightening monetary policy.

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