

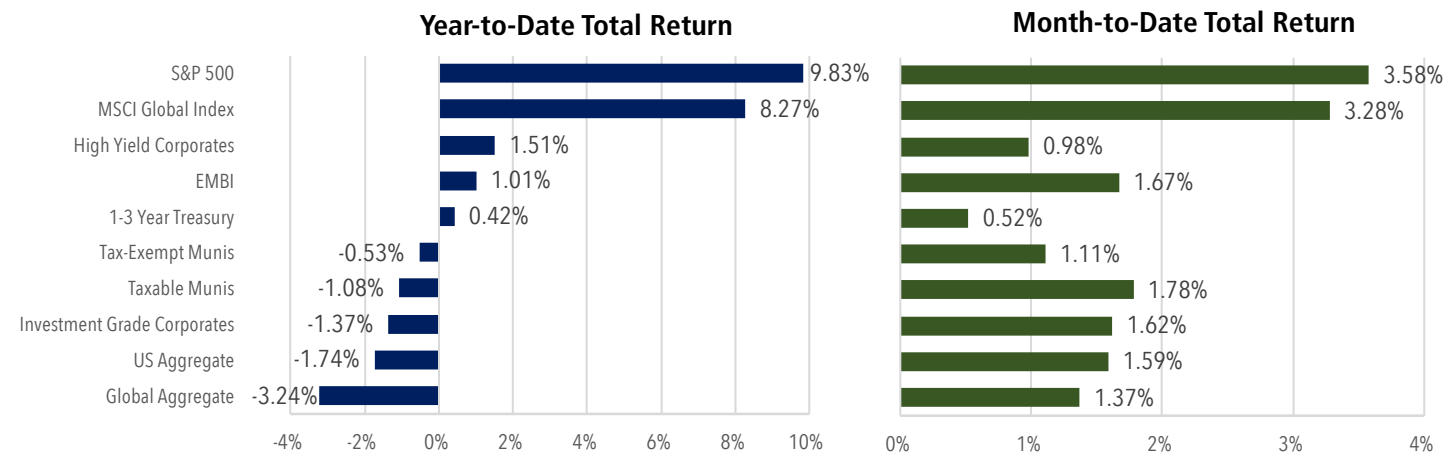
Week Ending: **May 10, 2024**

## Cutting Edge

### Economic Overview:

Following the Swiss National Bank, the Riksbank became the second developed central bank to cut rates. Sweden's unemployment rate is well above its 12-month lows. Meanwhile, CPI with a Fixed Interest Rate (CPIF), Riksbank's "formal target variable," slowed to 2.2% year-over-year in March. Price index enthusiasts may have noticed that CPIF is lower than the core HICP, a metric used for cross-country comparisons. What gives? Housing. HICP excludes owner-occupied housing (but includes renter costs), whereas CPIF "excludes the effect of changed interest rates for households' mortgages." The approach may disappoint ~80% of Sweden's homeowners with variable-rate mortgages as the cost borne by households may not be reflected in the measures favored by central bankers—though policymakers argue rate increases will be "transitory." In contrast, the U.S. CPI uses a rent-equivalent measure for owner-occupied housing. [While some investors enjoy the parlor game debate about the "right" price index, the target variable may matter most for policy and financial markets.](#)

### Total Returns by Asset Class



Source: Bloomberg

### Highlights of the Week:

**High Yield:** High yield spreads and total returns are flat in the second quarter, but that masks elevated price volatility between the beginning and end of that period. At its trough in April, performance reached as low as -1.8% due to wider spreads and higher rates. Peaks and troughs are challenging to time, but investor patience will be rewarded over the long run.

**Corporates:** Investment-grade corporates priced \$54 billion in new issue supply this week, making it one of the heaviest weeks of the year and bringing the year-to-date total to \$691 billion. Investors met this supply with plenty of demand, bringing spreads to a new year-to-date tight of 85 intra-week before closing Thursday at an OAS of 87 basis points, just one basis point wider on the week.

**Municipals:** Over the next few weeks, at least four municipal bond deals of \$1 billion or more are scheduled for sale "on top of the 22 already issued year to date." As a result, the number of mega-deals in the first half of 2024 alone will likely break the municipal markets' shattering record of 26 mega-deals in 2020.

**Equities:** The U.S. equity market extended its year-to-date gains supported by better-than-expected corporate earnings results. Market leadership continued to broaden, with all sectors posting gains for the week. Utilities, financials, and materials were the best-performing sectors, while consumer discretionary, technology, and communications were the market laggards.

**Securitized Product:** Despite an 11% year-over-year decline in auto loan originations and a 3% year-over-year decline in the average amount financed on new vehicles during the fourth quarter of 2023, auto loan balances remain elevated compared to their long-term levels. Consequently, robust year-to-date auto ABS new issuance continued this week as 11 issuers across auto loan, auto lease, and dealer floorplan platforms began premarketing campaigns.