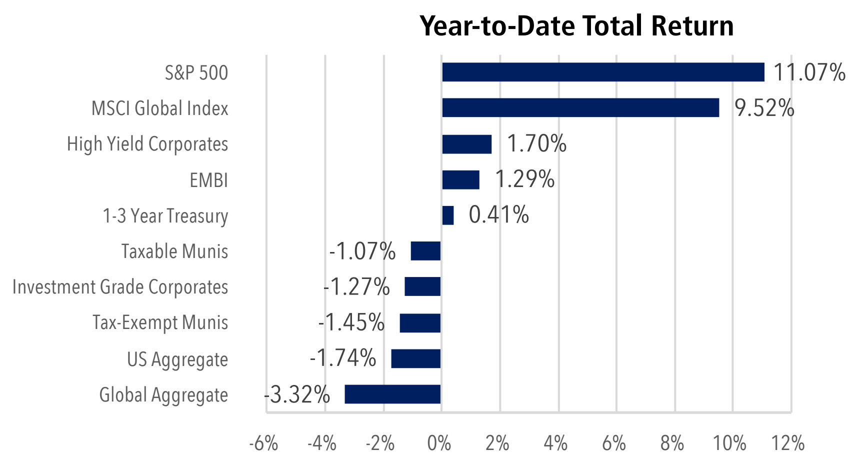
Week Ending: **May 24, 2024**

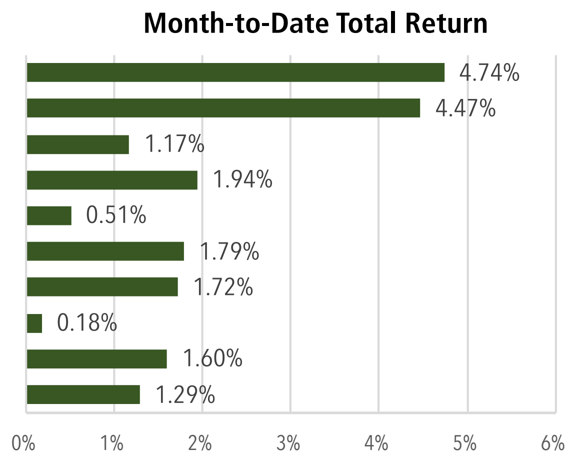
Mood Swings

Economic Overview:

This week, at the Peterson Institute for International Economics, Fed Governor Christopher Waller fired back at critics asserting that the Fed has become "overly data dependent…and allegedly sending confusing messages about the stance of monetary policy." Waller argued that while the Fed's projection for the fed funds rate at year-end 2024 in the Summary of Economic Projections has only fluctuated 50 basis points (or two cuts) in the past year, market participants have seesawed from as many as seven rate cuts to as few as only one! Waller clarified that the Fed needs "several" months of "good" inflation data before feeling confident enough to cut. Investors chewed on the word "several," but we think assuming 3-5 months is safe. And, what constitutes "good?" Per Waller: "When [we] don't have to go out two or three decimal places in the monthly inflation data to find the good news." In other words, 3-5 monthly readings that round to 0.2%. In short, we'll give Waller the final word: "A cut doesn't have to happen in this calendar year."

Total Returns by Asset Class





Source: Bloomberg

Highlights of the Week:

High Yield: This week, several issuers with distressed bonds in their capital structures have tapped the primary high yield market. These issuers typically issued secured bonds and/or loans to help pay down near-term debt maturities. While access to the primary market for a broad range of issuers is fundamentally healthy for the asset class, issuer selection remains critical.

Corporates: It was another decent week in investment-grade new issue supply, with $26 billion pricing, bringing the year-to-date total to $750 billion. Investor demand remains stable, keeping corporate spreads unchanged at a week-to-date OAS of 87 basis points.

Municipals: For nearly seven consecutive weeks, the municipal market has seen an influx of new supply totaling over $10 billion, driving MMD yields up by about 14 basis points in the front end and belly of the curve. Simultaneously, MMD-UST ratios increased 3-4 percentage points across the curve, reaching their highest levels since 2023.

Equities: After a week highlighted by NVIDIA's first-quarter earnings results, the U.S. equity market ended unchanged heading into the holiday weekend. Most sectors posted losses for the week, with energy, real estate, and financials leading markets lower, while technology, communications, and industrials were the best-performing sectors.

Securitized Product: The tight inventory environment that has propelled home prices to record highs despite historically poor affordability is loosening. Total inventory has increased to its highest level since October 2022, driven by elevated construction and homeowners no longer willing or able to delay listing their homes. Though higher mortgage rates have prevented demand from absorbing the added supply (total home sales are down -2% year-over-year), the current month's supply value of 4.2 is sufficiently tight to support home prices.

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