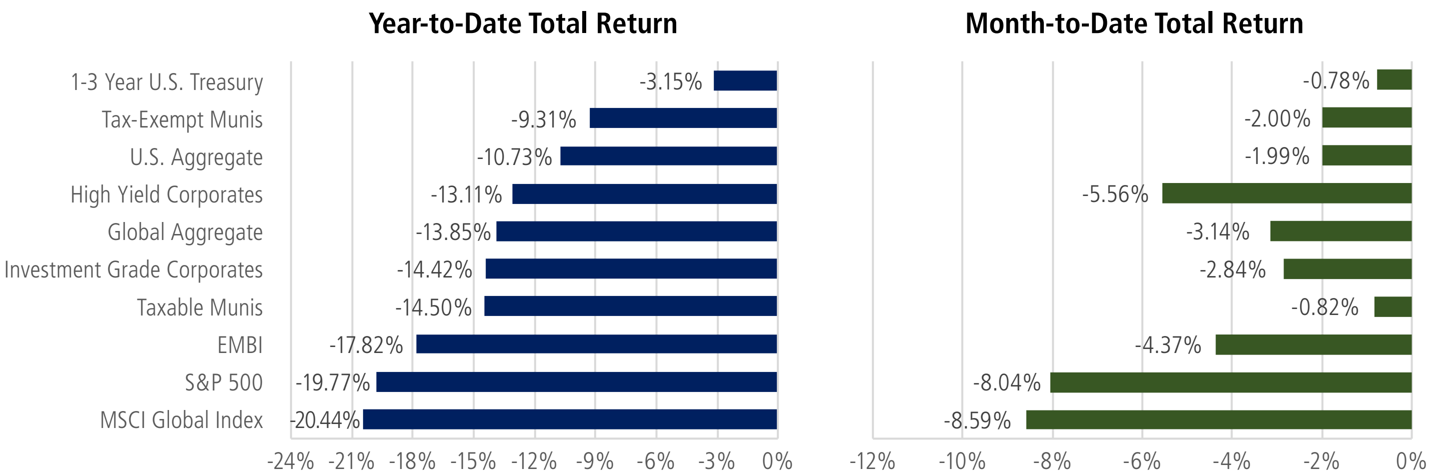
Week Ending: **June 24, 2022**

PMI Pummeling

Economic Overview:

The "flash" or preliminary PMI data for June released this week added to recession fears. The decline from May indicates that growth in the eurozone and U.S. is slowing down. The eurozone composite PMI in June printed at 51.9, and while still indicating expansion (value above 50), the index declined substantially compared to May's reading of 54.8. If we put aside the Covid-19 lockdown months, this was the largest single-month decline since November 2008. Other indicators of business confidence are also down in the eurozone. Adding to economic concerns, Germany warned of more energy supply shocks in store, particularly with natural gas as Russia continues to slow its exports. While energy prices mostly impact manufacturing output (which saw a contraction in June), service sector PMI is also weakening as consumer confidence and demand decline. In fact, new orders for goods and services did not increase for the first month since the start of the recovery. It's not all bad news, though, as the U.K. PMI remained unchanged on the back of a robust service sector.

Total Returns by Asset Class



Source: Bloomberg

Highlights of the Week:

- **High Yield:** In contrast to recent years, when high yield bonds generally traded at a premium, investors can now buy bonds at a discount to par and look to price appreciation to help drive total returns. Thanks to higher rates, elevated spread levels, and low coupons, high yield bonds are trading well below par – even the average BB rated bond is now trading at a dollar price of $89.38.

- **Corporates:** Despite a more positive tone this week, issuers continued to be reluctant within the primary market. Just four issuers hit the market for roughly $10 billion, marking the ninth week year-to-date that volumes have missed projections. In 2021 there were just 15 misses for the entire year. Barring a barrage of issuance next week, month-to-date issuance of just $62 billion is set to be the lowest June volume since 2013.

- **Municipals:** Despite outflows from municipal mutual funds over the past week, the tax-exempt market rallied on the back of lower U.S. Treasury yields. The broad Bloomberg Municipal Index gained 0.79% this week, reducing year-to-date losses to -9.31%. We remain cautiously optimistic that the market will stabilize in the latter half of 2022.

- **Equities:** The U.S. equity market had its first positive week after falling for three consecutive weeks. The health care, consumer discretionary, and real estate sectors led markets higher, while industrials, materials, and energy were the worst performers.