Payden&Rygel

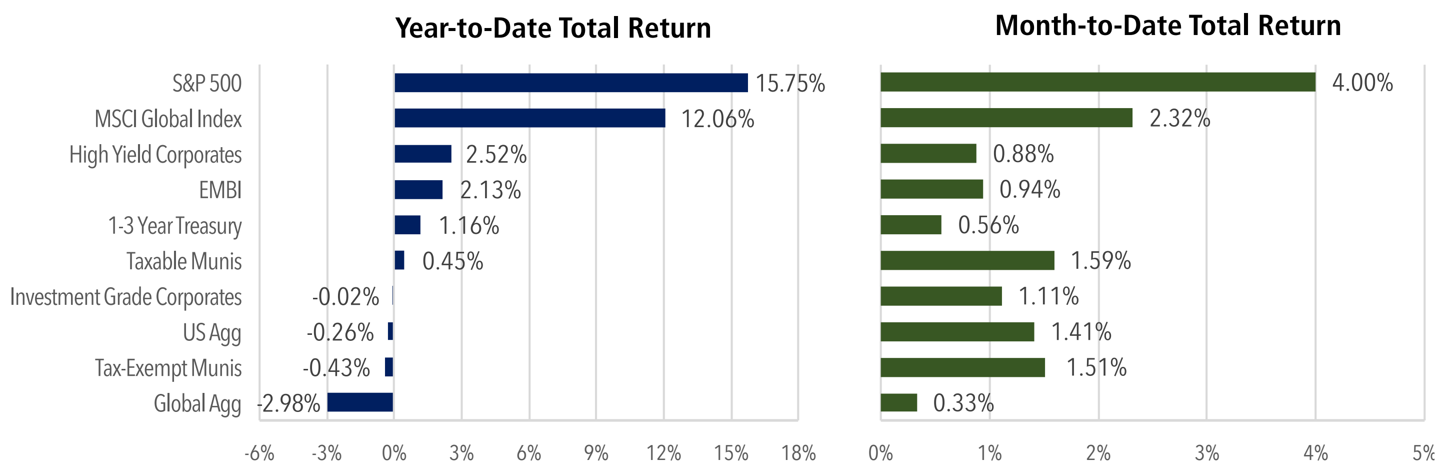
Week Ending: **June 28, 2024**

Claims Consternation

Economic Overview:

This week, investor attention shifted to the recent rise in the weekly initial jobless claims data, a proxy for layoff activity. Some investors cited the uptick in layoffs as a sign that a consumer-led slowdown is imminent. Indeed, initial claims touched a cycle-low in January, at 194,000, but reached 233,000 in the latest week of data. We're unperturbed by the rise, though. First, the current level remains well below the pre-pandemic average of +280k/week. Second, on a year-over-year basis (the measure used by NBER in its official business cycle dating), initial claims have decreased 7% from a year ago, much lower than the trend in 2023 and 2019. Third, research from the Richmond Fed staff on the historical reliability of initial claims data in forecasting a recession shows that, since 1963, an initial claims rise of 7.4% year-over-year signals a 90% chance a recession is imminent. With layoff counts down versus year-ago levels to finish Q2, bearish investors ought to look elsewhere for evidence of a slowdown in the latter half of 2024.

Total Returns by Asset Class



Source: Bloomberg

Highlights of the Week:

High Yield: Spreads on single B bonds appear to have compressed more dramatically this year than bonds in the BB and CCC rating categories. However, this distinction is driven by compositional effects, as several large capital structures have been downgraded from B to CCC this year. The downgrading has had a cleansing effect on the higher-quality BB/B HY index, as the proportion of BB-rated bonds in the index is the highest since September 2022.

Corporates: Softness in IG Corporates continues this week despite spreads remaining unchanged at an OAS of +94 basis points. The $28 billion deals priced in the primary market saw mixed secondary performance, with some deals wider by 10-15 basis points. While still positive, fund flows continue to slow as we head into the second half of 2024.

Municipals: Two weeks ago, the U.S. Court of Appeals for the First Circuit overturned a lower court's ruling that PREPA (Puerto Rico Electric Power Authority) bondholders were essentially unsecured and did not have a lien on the entity's future revenue. Overturning the ruling was credit-positive for bondholders and helped to solidify the strength of the municipal bond market by maintaining the legal claim bondholders have on an issuer's revenue streams.

Equities: The U.S. equity market ended the week higher, making new all-time highs supported by macroeconomic data that met expectations. Most sectors posted gains for the week, with energy, communications, and consumer discretionary leading markets higher, while utilities, materials, and consumer staples were the market laggards.

Securitized Products: SASB (Single-Asset, Single-Borrower) spreads remained rangebound after the Q1 rally and continue to be wider than historical averages as investors remain cautious of risks in the bifurcated Commercial Real Estate (CRE) market. Year-to-date 2024 SASB issuance is ~50% higher than full-year 2023 issuance and has been absorbed well by the market due to robust investor demand.