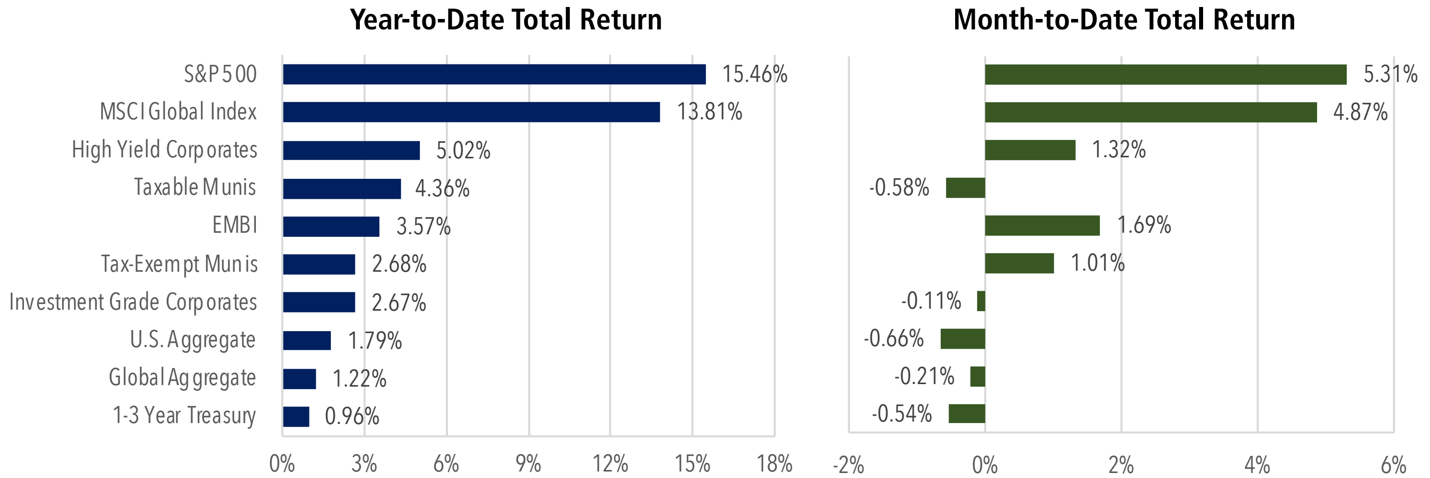
Week Ending: **June 30, 2023**

Uncomfortable Truth

Economic Overview:

At the European Central Bank's annual central banking forum in Sintra, Portugal, this week, IMF Chief Economist Gita Gopinath delivered dinner remarks on "uncomfortable truths" about the global economy. One truth struck a chord, given recent charts of the week on global inflation. "The fact is that inflation is too high and remains broad-based in the euro area, as in many other countries," she said. "While headline inflation has eased significantly, inflation in services has stayed high, and the date by when it is expected to return to target could slip further." Later in the conference, Fed Chief Jerome Powell echoed her concern, adding, "The longer inflation remains high, the bigger the risks become." Uncomfortably, U.S. core PCE has been running well above the Fed's target for 29 consecutive months—the most prolonged period of above-target inflation since the 2% target took hold (implicit from 1996; official from 2012 onward). High inflation is no mere "shock" but rather a persistent problem. What will be the knock-on effects to expectations and wage demands?

Total Returns by Asset Class



Source: Bloomberg

Highlights of the Week:

High Yield: One of the biggest surprises in the year's first half was strong CCC performance, as that cohort returned more than 9%, its second-best start in the last decade. At the beginning of the year, some market commentators expected a recession, but earnings and macro data have been better than expected, and CCCs were among the biggest beneficiaries.

Corporates: As we reach the midpoint of 2023, total investment-grade supply is on the pace of last year, currently only down by 3%. On the surface, while supply may be similar, we have seen bouts of volatility, and supply components drastically differ. For example, financials made up roughly 50% of supply this same time last year but just 35% year-to-date. With the banking crisis slowly moving to yesterday's news, July has normally seen heavy bank supply post Q2 earnings, a chance to make up some lost ground per se.

Securitized: While U.S. home affordability remains challenging, with mortgage rates near 7%, home price declines have stalled and, in many markets, reversed. The S&P CoreLogic Case-Shiller U.S. National Home Price Index posted a monthly increase of +0.5%, seasonally adjusted, for April, the 3rd monthly increase for this index. Unfortunately, few homes are available for home buyers, with inventories still well below normal levels.

Municipals: Yesterday, BlackRock finalized its sales from the FDIC liquidation of the $7 billion Silicon Valley Bank portfolio, which provided deeply discounted municipal bonds unlikely to be called at par in a market underperforming issuance expectations.

Equities: The U.S. equity market ended the week higher as economic data continued to point to a resilient economy. Nearly all sectors posted positive returns, with real estate, energy, and materials leading markets higher, while health care, consumer staples, and utilities were the laggards.