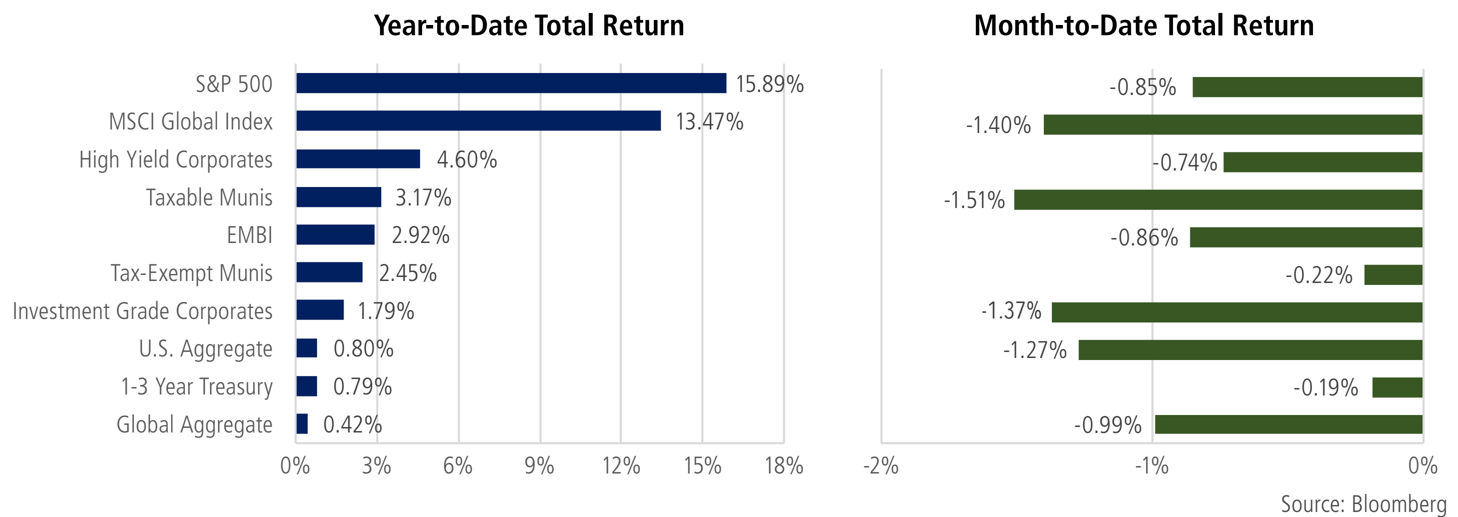
Week Ending: **July 7, 2023**

Quiet Quitting

Economic Overview:

The U.S. economy remains surprisingly resilient, with stellar job growth and a near-cycle low unemployment rate at mid-year. But, back in 2014, then-Fed Chair Janet Yellen lamented the lackluster labor market of the 2010s, saying that "the quits rate has tended to be pro-cyclical, since more workers voluntarily quit their jobs when they are more confident about their ability to find new ones and when firms are competing more actively for new hires." Well, quietly, quitting picked back up in May, according to data released this week, and the quit rate is still outpacing the prior two cycles, suggesting the current expansion has room to run despite the near-constant predictions of a downturn. As Chair Yellen explained, quits result from solid labor market conditions, bustling demand, and faster wage growth—problems the Fed could only dream of in 2014. So, while the news means the Fed will likely try harder to soften labor market conditions to bring supply and demand "into better balance," in the words of current Fed chair Jerome Powell, don't forget to reflect on the good news in the data.

Total Returns by Asset Class



Source: Bloomberg

Highlights of the Week:

High Yield: Treasury volatility has adversely impacted more rate-sensitive asset classes, but within high yield, tighter spreads and high coupons have acted as a buffer. These factors have historically benefitted high yield investors by reducing volatility during rising rate environments. In fact, the price of high yield bonds has remained remarkably steady over the last few months, trading between $87 and $89 since March 30, 2023.

Corporates: Starting the second half of 2023, investment-grade corporate spreads continue to grind tighter as supply slows down and rates rise, with the 2-year treasury hovering around 5%. On the year, spreads are now 5 basis points tighter at an OAS of 125 basis points as of Thursday's close. Six issuers came to market this week after the July 4th holiday, pricing $13 billion of new issue supply.

Municipals: Municipal bonds returned 1% in June as Treasuries posted losses. Halfway through the year, municipal bonds have returned a healthy 2.67%, high yield municipals have registered a strong 4.43%, and taxable municipals have recorded 4.75%.

Equities: The U.S. equity market ended the holiday-shortened week lower as stronger-than-expected economic data increased the potential for more Fed rate hikes. Healthcare, materials, and energy were the worst-performing sectors, while real estate, communications, and utilities ended the week with gains.

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