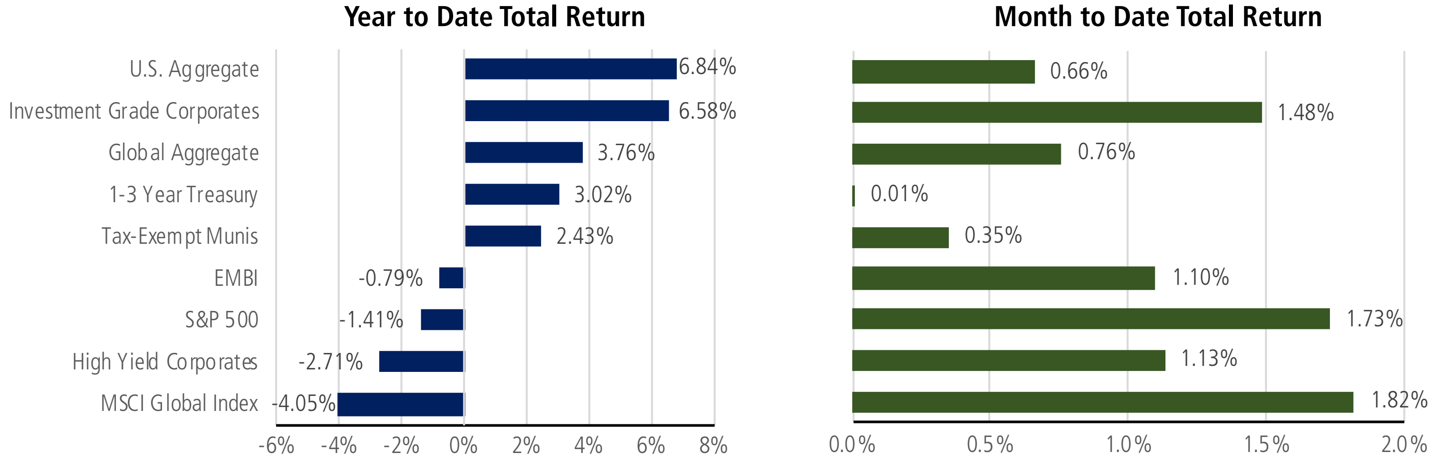
Week Ending **July 10, 2020**

Let It Churn

Economic Overview:

The U.S. economy posted shockingly bad jobs figures in April and surprisingly good figures in May (and June). Many investors wonder how huge job gains are possible when we hear about firm closures and layoffs. Well, data released this week on job openings, hirings, and separations (layoffs and quits) through May help tell the story in better detail. The key is to realize that the ever-popular nonfarm payroll figure is the net result of many moving parts. For example, in April, layoffs surged, and hiring slumped, leading to a massive drop in employment. In May, the trends reversed: hiring picked back up, and layoffs plunged. The net result: 2.3 million jobs gained. Layoffs still occurred in May—about 4.2 million to be exact—but hiring once again outpaced losses (6.5 million). Understanding these dynamics helps alleviate fears that the data is rigged or inaccurate. It also gives one a better appreciation for the April/May 2020 COVID-19 recession's unique characteristics.

Total Returns by Asset Class



Highlights of the Week:

- **High Yield:** The broad high yield market returned -4.7% in the first half of 2020. This is only the 5th time the high yield market posted a negative return in the first half of the year since the inception of the high yield master index (J0A0) in 1985. Given where we were in late March (-20.5% total return YTD through March 23rd) and how dire the situation felt, a total return in the -5% context feels like a good outcome. The broad index returned +9.6% in the second quarter, which was the best quarterly return since 2009.

- **Corporates:** Spreads on the Bloomberg Barclays U.S. Corporate Index hit their post-March lows on Monday, at an OAS of +140. IG Corporates have tightened 233 basis points since hitting the high of +373 on March 23. The corporate market was relatively quiet this week as earnings season starts next week. There are 32 companies expected to report next week with financials such as Bank of America, J.P. Morgan Chase, Wells Fargo, and Citigroup leading the way.

- **Securitized Products:** The new issue pipeline has kicked into gear this week with active issuance in the ABS, CLO and Private Label RMBS sectors. Investors have welcomed the supply as deals have been multiple times oversubscribed. Mortgage rates continue to touch all-time lows, currently at 3.03%. Certain lenders are tightening standards and raising rates for refi as they try to slow the pace of volume activity.

- **Municiples:** Requests for municipal cusips for newly issued bonds increased for a third consecutive month with a 23.1% month-over-month increase, according to CUSIP Global Services. With the municipal market back on firmer footing and the asset class attracting eight consecutive weeks of mutual fund inflows, issuers are seeking to lock in low interest rates for their capital needs.

- **Equities:** The U.S. equity market edged higher for the week despite ongoing fears of coronavirus cases. Next week marks the beginning of Q2 earnings season, which will give investors some much-needed clarity into forward demand trends and financial guidance. Consumer discretionary and communication service sectors led the market higher for the week, while energy and real estate sectors were the market laggards.