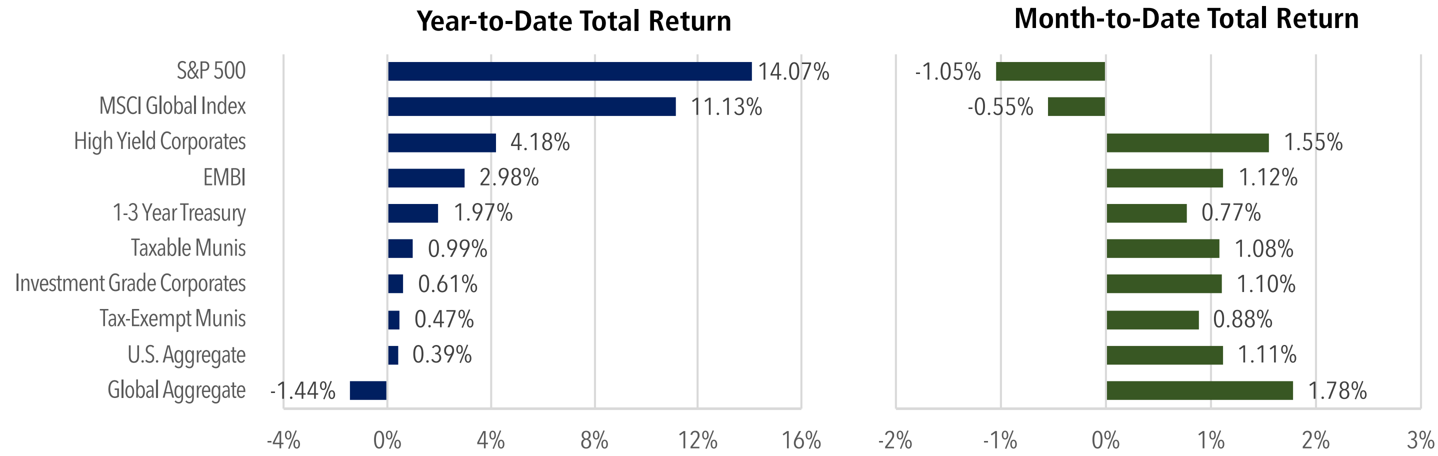
Week Ending: **July 26, 2024**

Consuming Narratives

Economic Overview:

This week, the Bureau of Economic Analysis reported that the U.S. economy grew at a 2.8% annualized rate in the second quarter of 2024. While the popular narrative has been that the economy was slowing, Q2's growth represented a big pickup from 1.4% in Q1 and nearly a percentage point ahead of market expectations of 2%. Once again, personal consumption expenditures ("consumer spending") fueled overall growth, adding +1.6 percentage points. Moreover, goods spending bounced back in Q2 after detracting from growth in Q1. On a year-over-year basis, consumer spending has grown around 2.3% for six consecutive quarters! Historically, consumer spending tends to be inertial during expansions but then slow substantially at least five quarters preceding a recession—especially when we look at goods consumption. Bigger picture, while some investors tout the view that the Fed urgently needs to reduce rates to stave off an economic downturn, nobody seems to have told consumers.

Total Returns by Asset Class



Source: Bloomberg

Highlights of the Week:

High Yield: While the S&P 500 is down -4.7% from this month's peak, the high yield index was actually positive over the same period, returning +0.1% thanks to the fundamental health of the asset class and investors' benign default expectations. High yield should continue to insulate diversified portfolios from ongoing equity market volatility.

Corporates: This week, we saw $29 billion come into the market with a variety of issuers. The largest deal of the week came from UnitedHealth Group, which issued $12 billion across eight different tranches across the curve. Deals continue to price with little to no concessions, which has made performance within secondary schools a mixed bag. Expectations for next week's issuance range from $20-30 billion, pushing monthly totals in excess of $120 billion, the largest July on record.

Equities: The U.S. equity market posted losses for the second consecutive week after mixed corporate earnings results drove a continued rotation out of year-to-date winners. Within sectors, communications, technology, and consumer discretionary led markets lower, while health care, financials, and utilities were the best performers.

Securitized Products: Performance in GSE credit risk transfer (CRT) mortgage-backed securities remains solid despite mortgage rates hovering at 7%, presenting affordability challenges to prospective homeowners. Home prices have been supported by robust consumer fundamentals and low net supply; however, the supply-demand balance has been normalizing. Low gross CRT issuance and issuer bond buybacks are also contributing to risk premiums nearing levels not seen since the Fed began tightening monetary policy.