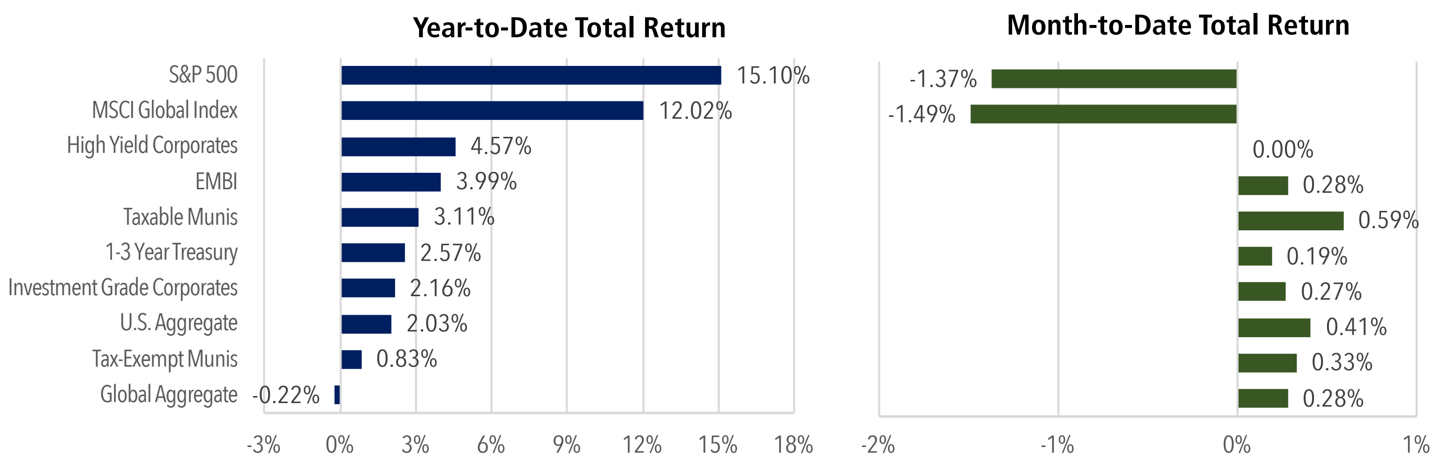
Week Ending: **August 2, 2024**

Recession Watch

Economic Overview:

At this week's FOMC press conference, Chair Powell faced a slew of questions about the labor market. Powell said the unemployment rate has risen but remains low, signaling a solid labor market. His response impressed neither the assembled reporters nor the financial market masses. The July Employment Situation report will not help Powell's case. The unemployment rate jumped to 4.3% as of July, up 0.9 percentage points from its cycle-low in 2023. To labor market bears, the reading confirms a recession is underway. However, when breaking down the unemployment level by reasons of unemployment, 40% of the rise in total unemployment since cycle-low was due to entrants joining the labor force. In comparison, layoffs accounted for 20% of the cumulative increase. Typically, layoffs drive the unemployment rate up in a recession. In addition, a 249k surge in temporary layoffs in July could be weather-related. While the risk of a recession has increased with the rise in unemployment, we don't think the case is definitive.

Total Returns by Asset Class



Source: Bloomberg

Highlights of the Week:

High Yield: While loans are outperforming high yield bonds this year, they have been on a relative losing streak since rates peaked in late April 2024 and have underperformed by -233 basis points since April 25th. We expect rate moves to be the primary driver of the performance differential between the two asset classes over the near term.

Municipals: Municipal bonds accelerated their advance today, pushing yields down the most in seven weeks as investors rotate out of stocks into fixed income. This rotation is driven by expectations for the Fed to cut rates following a weaker-than-consensus nonfarm payrolls report this morning.

Equities: The U.S. equity market fell sharply for the week as slower growth concerns and mixed corporate earnings results weighed on market sentiment. Most sectors posted losses, with consumer discretionary, technology, and energy down more than -3%, while utilities, real estate, and communications were up by more than +1%.

Securitized Products: Collateralized Loan Obligation (CLO) spreads were stable this week despite rate volatility as technicals continue to drive the market. The pace of new issue CLO supply has slowed while banks and ETFs continue to have healthy demand. New issue AAA-rated yields are still north of 6.5%.