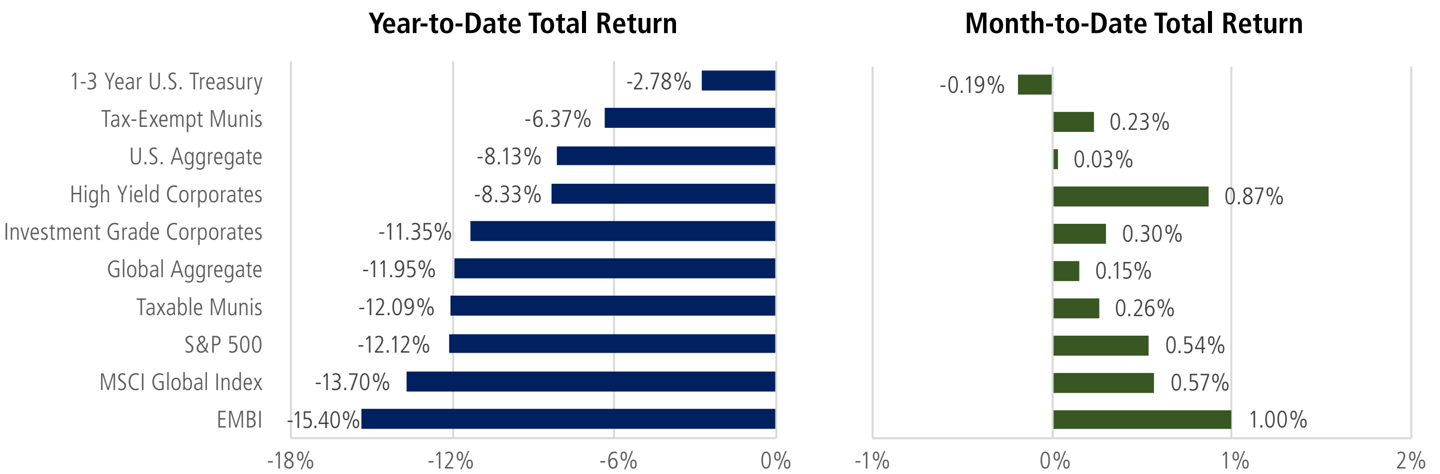
Week Ending: **August 5, 2022**

On Track For A Soft Landing

Economic Overview:

On Tuesday, the Job Openings and Labor Turnover Summary (JOLTS) revealed there were 605,000 fewer job openings in June than in May, implying slumping economic growth may be starting to impact the labor market. However, Fed Governor Christopher Waller has argued it's possible job openings, as measured by the job openings rate, will fall without causing a substantial rise in the unemployment rate (the "soft landing" scenario). But not all economists agree. For example, former Treasury Secretary Larry Summers and colleagues argue that every significant drop in job openings since the early 1950s has been accompanied by a substantial rise in the unemployment rate over the next year or so. Could 2022 be different? Yes, it could if July's *Employment Situation* is any indication. Nonfarm payroll employment increased by 528,000, and the unemployment rate *fell* to 3.5%! At least based on the labor market data, the U.S. appears to be on track for a soft landing, not a recession. Unfortunately for investors, labor market strength likely means the Fed is not done hiking.

Total Returns by Asset Class



Source: Bloomberg

Highlights of the Week:

- **High Yield:** The market rally over the past month has not yet lured issuers back to the refinance market. In spite of tighter spreads, all-in yields are still hovering around the 7.5% area, well above the average coupon rate of 5.7%. As a result, only $2.0 billion in new high yield bonds priced this week.

- **Corporates:** The investment-grade primary market saw a strong start to August with $57 billion pricing across a broad range of sectors. Among issuers, Meta's inaugural $10 billion issuance was the most notable. In total, there were thirty-one companies who issued debt with four issuing $5 billion or more. Dry powder and inflows into the asset class kept books healthy while giving issuers pricing power causing some deals to be walked back in excess of 30 basis points.

- **Securitized Products:** There's a bit of a risk-on tone in the securitized market at the moment. Spreads have rallied in asset-backed securities (ABS) and residential mortgage-backed securities (RMBS) as issuers are getting their last bit of funding this week before heading out for their end-of-summer vacations. The relatively low issuance in the RMBS market has been compounded by Fannie and Freddie buying back their older bonds, which is adding fuel to the risk rally.

- **Municipals:** Lipper Refinitiv reported combined weekly and monthly inflows of $1.6 billion for the period ending August 3rd, the second consecutive week. Weekly reporting funds comprised $1.1 billion of this number, marking the third weekly inflow in the past four weeks. Inflows have bolstered performance in recent weeks, providing a reprieve from the negative returns experienced in the first half of 2022.

- **Equities:** The U.S. equity market ended the week near unchanged as investors continued to focus on second quarter corporate earnings results and economic data. Growth-oriented parts of the market (consumer discretionary, technology and communication sectors) were positive, while the energy, real estate, and material sectors posted negative returns.