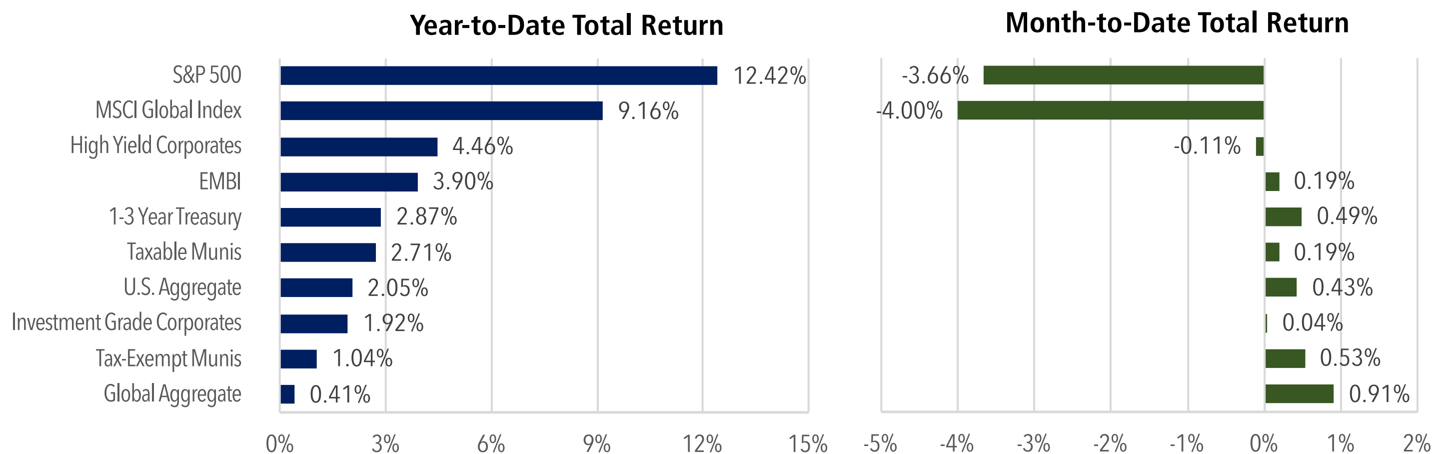
Week Ending: **August 9, 2024**

Carried Away

Economic Overview:

When market turmoil erupts, investors demand an explanation—or, more often, someone to blame. Central bankers serve as easy targets for such ire. "Blame the Fed," many investors say. "They're obviously behind the curve." We don't think the story is so clear-cut. One might blame the Bank of Japan (BoJ). After all, while the Fed held rates steady last week, the BoJ hiked. Why does that matter? Decades of low rates and a weaker yen made borrowing in the yen attractive (since it's cheaper) to global investors. We have seen the yen-carry trade play out before (e.g., 2006-2008). This time, tech stocks, global bonds, and crypto may have been destinations for the levered capital. Unwinding positions all at once might explain the global cascade of financial market movements. What doesn't explain the turmoil? The U.S. labor market. Data this week showed the largest drop in layoffs over a week this year. Don't get carried away blaming the Fed.

Total Returns by Asset Class



Source: Bloomberg

Highlights of the Week:

High Yield: The last few weeks saw the biggest spread widening event all year, from a tightest of 299 basis points in July to a widest of 389 basis points on Monday, offering investors an opportunity to buy at more attractive valuations. However, bond prices only fell one point from peak to trough as lower rates offset the impact of wider spreads, reducing the opportunity's size. Bond prices have since recovered, and total returns are now +0.1%.

Corporates: Despite the enormous amount of volatility this week, the quick snapback from the sell-off opened the floodgates for investment grade issuers. On the week, $46 billion came to market, with Wednesday seeing the brunt of action—$32 billion across 17 issuers, the busiest day of the year. Despite the sheer volume, demand was extremely robust, as the initial price talk for most deals saw room for decent concessions. Secondary performance was also welcomed, with most deals tighter by as much as 13 basis points.

Municipals: Municipal bond performance in July was positive, reflected by the Bloomberg Municipal Index's total return of 0.9%, with year-to-date returns coming in at 0.5%. Nevertheless, municipal bond performance underperformed Treasuries, which posted a robust 2.2% return in July. MMD/UST ratios lifted two percentage points (pp), three pp, and two pp in the 5-year, 10-year, and 30-year periods to 69%, 69%, and 84%, respectively.

Equities: The U.S. equity market ended the week modestly lower despite a significant pickup in market volatility. Growth concerns peaked on Monday as equities posted their worst daily return in two years. By the end of the week, better-than-expected economic data helped alleviate some of the recession fears, leading to a rebound in equity prices. Materials, utilities, and consumer discretionary led markets lower, while energy, industrials, and financials were the best performers.

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