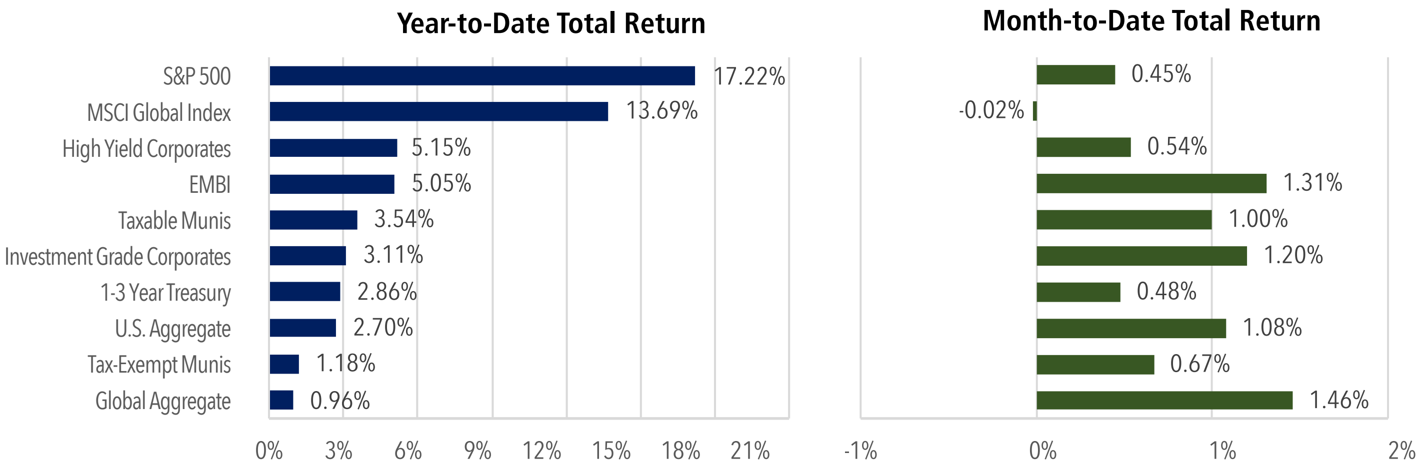
Week Ending: **August 16, 2024**

Not Dead Yet

Economic Overview:

The July U.S. CPI report showed that underlying inflation has moderated over the last year. Core CPI, excluding volatile food and energy components, slowed to 3.2% year-over-year—the softest reading in three years. Bond bulls and monetary policy doves tout the progress as a reason why the Fed should begin cutting rates, perhaps even substantially. We aren't so sure. Each month within the CPI report, some components beyond food and energy swing sharply and create noise. For example, the shelter component decelerated in June, while in July, shelter rebounded. Our preferred way around the noise problem is to follow the signal provided by the Median CPI. The median price change in July was up 0.3% and 4% on a trailing 12-month basis. Softer, sure, compared to readings in Q1 2024, but median CPI in July advanced at a month-to-month rate unseen last cycle, and the year-over-year reading is not soft enough to warrant deep cuts in the policy rate. Or, as a clever British comedy troupe might have written, inflation is "not dead yet."

Total Returns by Asset Class



Source: Bloomberg

Highlights of the Week:

High Yield: Earlier this year, loans outperformed high-yield bonds by more than 3%, in large part due to rising rates, but that result has almost completely reversed as rates have fallen and the market has priced in more rate cuts. As of yesterday, high-yield bonds have erased nearly all of their underperformance, trailing loans by only 24 basis points.

Municipals: LSEG Lipper reported municipal fund inflows for the seventh consecutive week, totaling $529 million for the weekly period ending August 14th. Of this, $296 million went to mutual funds, and $233 million went to ETFs.

Equities: The U.S. equity market rallied sharply for the week, recovering most of its recent losses. Stronger economic data and positive corporate earnings results from Walmart helped ease concerns of an economic slowdown. All but one sector posted gains, with technology, consumer discretionary, and financials leading markets higher, while real estate, utilities, and energy were the market laggards.

Securitized Products: CMBS spreads were unchanged to tighter this week as investors parsed through the July CPI report, which showed core inflation slowed year over year, the softest reading in three years. Issuers wrapped up a final flurry of conduit and single asset single borrower (SASB) offerings before peak vacation season ahead of the Labor Day Holiday. Issuance is expected to resume its robust pace after the holiday.