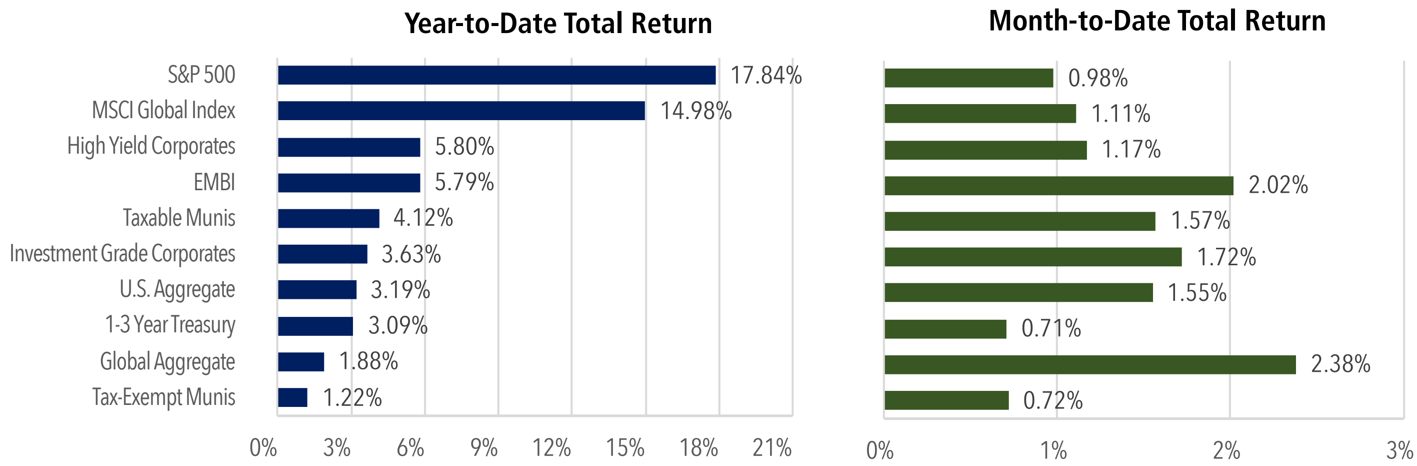
Week Ending: **August 23, 2024**

Revisionist History

Economic Overview:

The annual preliminary benchmark revisions of the Current Employment Statistics (CES) Survey showed that the U.S. economy gained 818k fewer nonfarm jobs than previously reported over the 12 months ending March 2024. Bond investors, as always, rushed to the conclusion that the U.S. labor market is clearly rolling over. We think the story is less clear-cut. First, while the revision indicates that job growth prior to March 2024 was weaker than the previously reported pace of 242k per month, 174k monthly payroll gains still indicate a healthy labor market. Second, annual revisions to the CES survey have gone in both directions, and preliminary revisions often differ from the final revision, as occurred in the last three years. Lastly, 818k represents less than 0.5% of total nonfarm payroll employment—a relatively minimal change to the big picture of consumer income power. The bottom line is that the revisions still show an economy adding jobs at a decent rate and tell us very little, if anything at all, about the labor market since March.

Total Returns by Asset Class



Source: Bloomberg

Highlights of the Week:

High Yield: In the high yield bond market, BB's represent 54% of the high yield index, well above the pre-Covid average of 43%. Meanwhile, CCC's represent 12% of the index, which is in line with pre-Covid averages. This higher quality composition of the index should dampen spread volatility going forward.

Corporates: The summer lull for investment grade issuance will likely commence just one week before the post-Labor Day rush begins. During this week, $23 billion came to market, highlighted by Kroger's seven-tranche $10.5 billion deal to fund its merger with Albertsons, which is still going through regulatory hurdles. This week pushed month-to-date totals to $106 billion, and it is the first time we have ever seen every month in a year breach the $100 billion mark up to August.

Municipals: LSEG Lipper reported municipal bond fund inflows for the 8th consecutive week. For the weekly period ending August 14th, inflows totaled $510 million, comprising $432 million of inflows into open end funds and $69 million into ETFs.

Equities: The U.S. equity market ended the week higher, highlighted by Federal Reserve chair, Jerome Powell, reinforcing expectations surrounding near-term rate cuts. Most sectors were positive for the week, led by real estate, materials, and consumer discretionary, while energy, technology, and communications were the market laggards.

Securitized Products: The mortgage market has performed favorably as interest rates declined due to moderating employment conditions and softer inflation readings. Market participants welcome an end to restrictive monetary policy with the expected delivery of rate cuts at the next Fed meeting. Despite lower primary mortgage rates (from 7% to 6.5%), housing activity remains weak. Prospective homeowners are still facing affordability headwinds and record-high home prices.