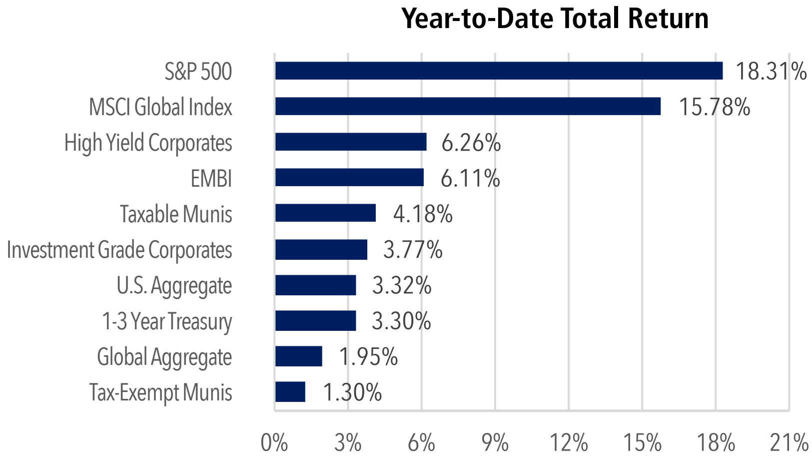
Week Ending: **August 30, 2024**

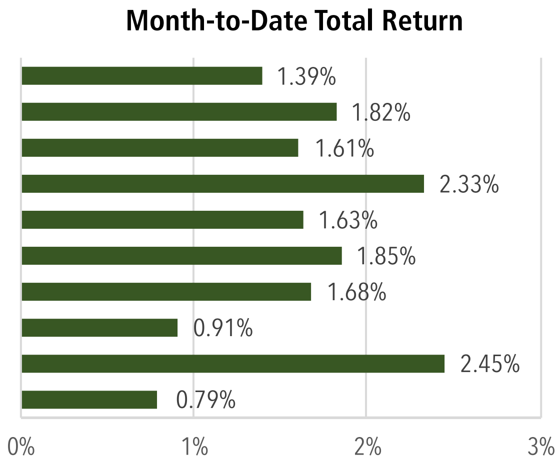
# Pivot Point

## Economic Overview:

Core inflation, as measured by the core personal consumption expenditures (PCE) price index, increased just 2.6% in July compared to a year ago, down from its peak of 5.6% in February 2022. During remarks last week at the Jackson Hole Symposium, Fed Chair Powell celebrated the almost miraculous moderation of inflation without significant economic consequences. More interestingly, Powell cited a paper presented at the Symposium, suggesting that the Phillips Curve (which posits a positive relationship between economic activity and inflation) steepens when labor demand vastly outpaces labor supply. A labor shortage accompanied five of the six inflation outbreaks in the U.S. since 1913. Indeed, in 2021-2023, inflation accelerated once *v/u* shifted above 1. The *v/u* ratio could dip back to 1 this fall, at which point the labor market will no longer pose an inflationary threat. Consequently, in policymakers' minds, the softer labor market bolsters the case to cut rates—and any further softening would warrant faster rate cuts. If you haven't already, it's time to pivot.

## Total Returns by Asset Class




Source: Bloomberg

## Highlights of the Week:

**High Yield:** August was a tale of two markets, as high yield bond spreads moved wider by 65 basis points during the first three trading days of the month only to snap all the way back, finishing the month even tighter than where they began. If you blinked, you missed an opportunity to buy. The moral of the story is, "Don't try to time markets, but invest for the long term."

**Corporates:** It's been a rather quiet week in the IG corporate market with just $2 billion coming to market as everyone awaits the annual post-Labor Day issuance deluge. Corporate spreads have also remained unchanged all week with an option-adjusted spread of +94 basis points, now five basis points tighter on the year. Finally, perhaps wanting to get in on next week's action, IG fund flows this week came in at $7.3 billion while corporate dedicated flows were $1.7 billion, driven by the intermediate part of the curve.

**Municipals:** Following a $223 million budget deficit for FY 2024, Chicago Mayor Brandon Johnson recently announced the City's deficit for FY 2025 will rise to $1 billion. Chicago revenue growth is not projected to keep pace with rising expenditures driven by elevated pension, labor, and migrant costs.

**Equities:** The U.S. equity market ended the week modestly lower with a light week of trading. Corporate earnings results were largely better than expected highlighted by NVIDIA, which beat market expectations but saw its share price fall likely due to some profit-taking. Sector leadership was mixed with technology, consumer discretionary, and communications down more than -1%, while financials, materials, and industrials were up by more than +1%.

**Securitized Products:** The European collateralized loan obligation (CLO) market saw only two primary deals price this week. However, investors expect a robust new issue calendar in September. Also this week, the first European CLO ETF was approved by regulators and is expected to launch in September. In the US, money has been pouring into CLO ETFs, with the largest AAA fund now over $10 billion in assets.