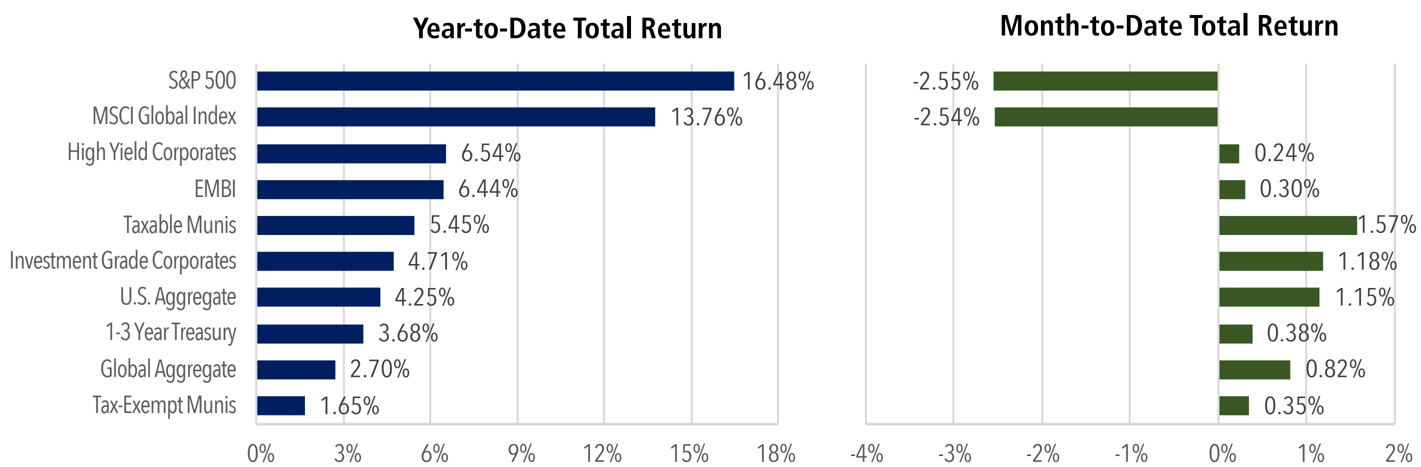
Week Ending: **September 6, 2024**

Curve Confusion

Economic Overview:

This week, bond investors briefly witnessed something unseen since the summer of 2022: A positively sloped yield curve. Specifically, the 10-year U.S. Treasury note yield was slightly higher than the yield on 2-year notes. The curve usually inverts before a recession, making it a popular harbinger of a downturn. However, the curve's slope turns positive after Fed rate cuts. But, in five of the six periods since 1980, nonfarm payroll growth turned negative within 12 months (the shortest period was just one month) of the steepening curve as recessions were underway. A prominent exception was the 1990s. The yield curve slope turned positive after the Fed cut rates in response to Long Term Capital Management (LTCM). Nonfarm payroll employment growth remained resilient, and a recession didn't happen for another three years. With this morning's jobs report showing firms added another 142,000 jobs to payrolls in August and a 25-basis point rate cut likely in September, the economy is tracking more like the 1990s. At the very least, the yield curve's movements do not tell us definitively that a downturn is imminent.

Total Returns by Asset Class



Source: Bloomberg

Highlights of the Week:

Municipals: 2024 has been a record-setting year for municipal bond issuance. State and local governments have been rushing to raise cash before election volatility hits later in the year. This phenomenon has driven sales up to $325 billion year to date, an all-time high for this period.

Equities: The U.S. equity market fell sharply during this holiday-shortened week as slower growth concerns drove the risk-off sentiment. Most sectors posted losses, with technology, energy, and materials leading markets lower, while consumer staples, utilities, and real estate were the best-performing sectors.

Securitized Products: The tone in the CLO market remained strong this week as the two-way flow increased, spreads held firm, and the new issue calendar ramped up. CLO managers continue to refinance their debt coupons lower, following the re-pricings occurring in the loan market. The increase in supply has been met with strong investor demand.