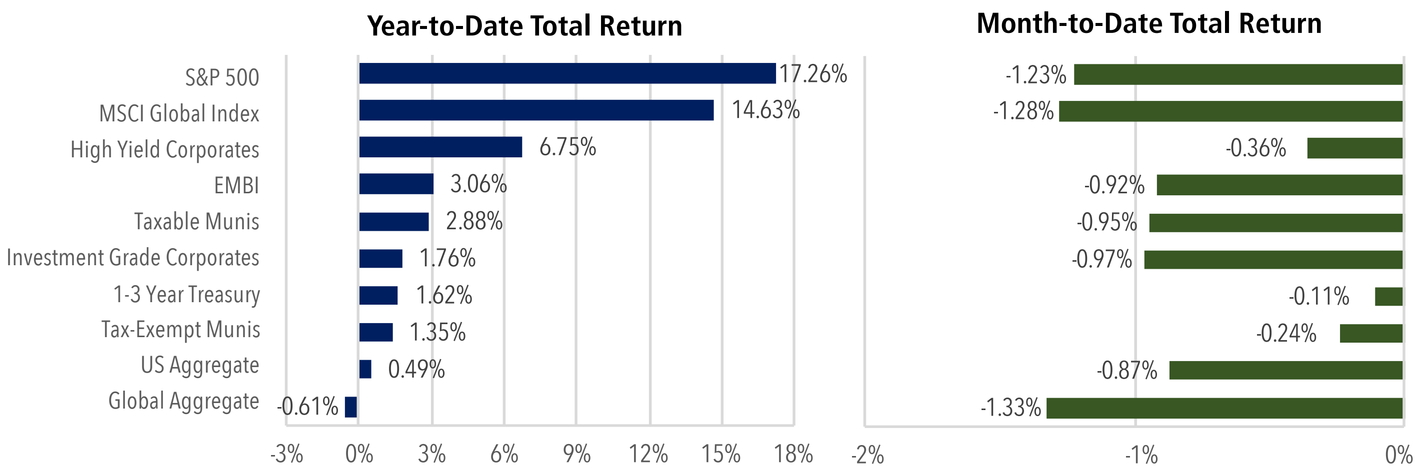
Week Ending: **September 8, 2023**

Excellent Services, Steep Prices

Economic Overview:

This week, the Institute for Supply Management survey of purchasing managers in the service sector unsettled investors who anticipated that the Fed hiking cycle was over. The "prices paid" component rose to 58.9 in August from 54.1 in June. Notably, overall service sector activity—a linchpin of this recovery—has accelerated from 50.3 in May to 54.5, defying expectations of the economy slowing, much less a risk for a recession. In the Personal Income and Spending report last week, non-housing services core PCE had accelerated back to 0.5% month-over-month, while wage growth for service-providing workers is still running faster than any time during the last recovery. Bond investors are still pricing in rate cuts in the first half of 2024—we remain skeptical. Governor Waller's cautious remarks on CNBC this week—"We can just sit there and wait for the data"—capture our sentiment. Summer vacation is over; we have another inflation report, producer price index, and retail sales before the next Fed meeting on September 20.

Total Returns by Asset Class



Source: Bloomberg

Highlights of the Week:

High Yield: Fitch upgraded Ford back to BBB- this week, more than three years after the issuer was downgraded to high yield. With one more upgrade, Ford will return to investment grade indices, joining 14 other rising stars this year compared to only two fallen angels that have fallen from investment grade to high yield.

Corporates: September kicked off with $58 billion of new issue supply this week post-Labor Day, of which $36 billion was priced on Tuesday, marking the sixth-largest day on record. Despite the heavy supply, investment-grade corporate spreads were just one basis point wider on the week at an Option Adjusted Spread (OAS) of 120 as of Thursday's close. The supply was met by $1.6 billion of inflows into high-grade bond funds per EPFR data.

Municipals: August was a comparatively weak month this year for municipal bonds. The Bloomberg Municipal Index recorded a total return of -1.4% for August, tempering year-to-date (YTD) returns down to 1.6%. The Taxable Muni index recorded excess returns of 0.6%, and the YTD return is up 3.7%.

Securitized Products: Towards the end of summer, European Collateralized Loan Obligation (CLO) secondary spreads have remained rangebound, if not marginally tighter, across lower parts of the stack. The rangebound spread has fed through into the primary market, which has been particularly busy with five deals looking to price within the next week. A healthy forward-looking pipeline and marginally tighter spread have provided a favorable short-term technical backdrop to underlying leveraged loan prices.