Week Ending **September 13, 2019**

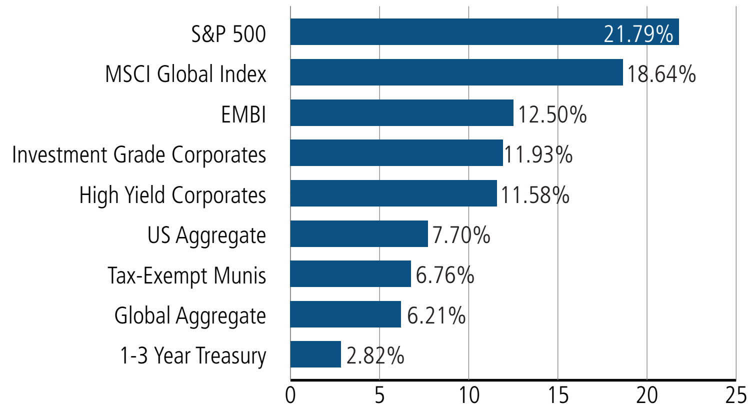
The Median Is The Message

Economic Overview:

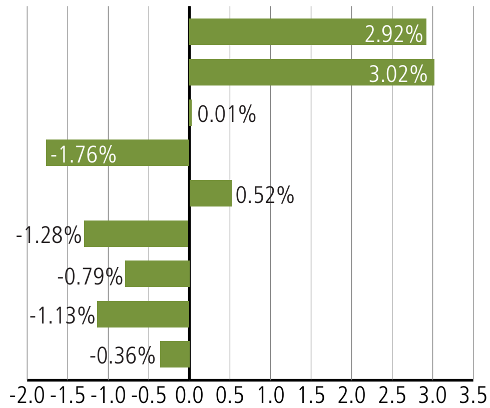
This week the Bureau of Labor Statistics revealed core CPI registered the third consecutive monthly increase of 0.3% in August. That feat of back-to-back-to-back monthly increases has not happened since April 1995. The streak was enough to push the year-over-year inflation rate up to 2.4%. A surprise to the market? It seems so. Despite the dovish ECB announcement of open-ended (or is it un-ending? But we digress) quantitative easing, global government bond yields spiked on Thursday. The underlying inflation pressure shouldn't be a surprise. Alternative measures of core inflation, such as our preferred gauge, the median CPI, have been pointing to higher underlying inflation all year. From the looks of it, we should expect further price pressures ahead.

Total Returns by Asset Class

Year to Date Total Return



Month to Date Total Return



Highlights of the Week:

- **High Yield:** Interest coverage ratios, the profits that companies generate relative to their interest payment obligations, improved during the second quarter among high yield companies. The improvement is a healthy sign for the market – it means that companies have a big buffer between the cash flow they're generating and the cash flow they're obligated to pay to creditors. This will help stave off defaults in the event economic growth decelerates and profitability falls.

- **Currencies:** Sterling rallied this week after it became clear that the U.K. Parliament would not support Prime Minister Johnson in his attempt to force a no-deal exit on October 31. Speculation about the progress made between the Northern Irish Democratic Unionist party and the U.K. government on the question about the Irish border further bolstered the positive risk sentiment. The "relief rally" resulted in the pound finishing the week 1.4% higher against the U.S. dollar.

- **Corporates:** Investment grade credit saw another strong week of supply as issuers came to market with $33 billion, bringing the month-to-date supply to $108 billion. Moody's downgraded Ford from Baa3 to Ba1. Per Moody's, the downgrade reflects considerable operating and market challenges that the company continues to face, and in the opinion of the rating agency, the company's position of weakness in cash flows and profitability. S&P and Fitch both maintain Mid-BBB ratings with negative outlooks.

- **Securitized Products:** Seventeen is an American teen magazine. It is also the number of ABS issuers that tapped the market this week, matching the week of April 8 for the busiest week of the year. This week brings year-to-date ABS issuance to $177 billion which matches the 2018 pace. The most popular deal had to be the inaugural Hewlett Packard equipment deal with heavy subscription and meager allocations.

- **Municipal:** Lipper reported a 36th consecutive week of inflows to municipal bond funds, bringing the YTD total to $66.5 billion – the highest ever at this point in a calendar year. Despite yields moving higher recently on renewed hopes of a trade deal with China, demand for the tax-advantaged municipal asset class continues to be robust.

- **Equities:** The U.S. equity market rallied for the third consecutive week due to reduced global trade tension. Equities are at the brink of testing new record highs as investors took profits from growth and large-cap stocks and rotated into value and small-cap stocks. Within sectors, cyclical sectors financials and industrials were among the best performers, while real estate and consumer staples were the market laggards.