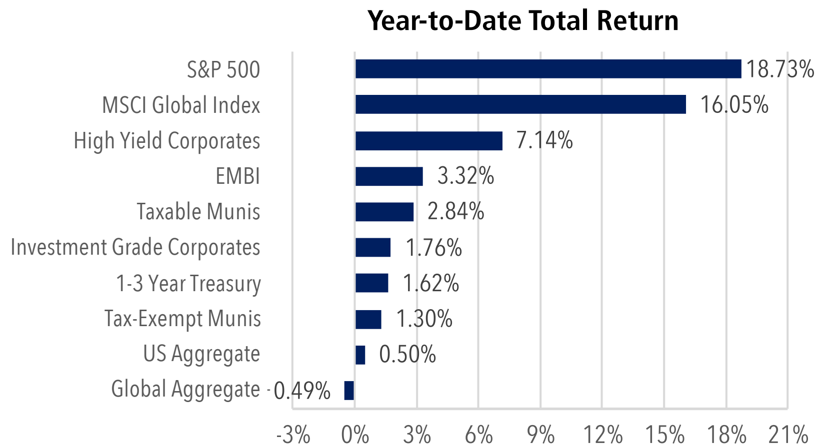
Week Ending: **September 15, 2023**

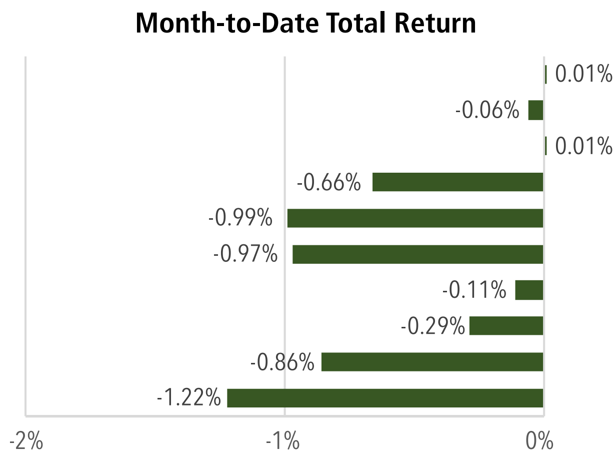
Beyond The Crystal Ball

Economic Overview:

Market consensus has coalesced around a view that central banks, whether we're talking about the ECB or the Fed, are done hiking. The argument is predicated on the belief that inflation is fading. Fed funds futures also imply that the Fed will begin to reduce its policy rate next year, "normalizing" policy rates by ~70 basis points over the next year. We're skeptical. While we acknowledge the progress made on the inflation front, the future is hazy. The August U.S. Consumer Price Index (CPI) report released this week showed core inflation (which excludes volatile food and energy prices) accelerated, up 0.28% month-to-month after rising just 0.16% in July. Core services "ex. housing" were up 0.37% in August, the fastest since March. More pertinently, if the August core CPI reading were to persist, core CPI would still be well above 3% by next summer, far too high for the Fed's taste. Worse, what if inflation accelerates, like we experienced in Q1 2023? Instead of impressing you with our crystal ball, we aim to convince you that there are many possible outcomes.

Total Returns by Asset Class





Source: Bloomberg

Highlights of the Week:

Corporates: As economic data headlined the latter part of the week, new issue supply was front-loaded, with 22 issuers tapping the market for a little over $30 billion. Bank of America was the largest issuer on the week, standing at $8.5 billion across four tranches. Street estimates for next week are around $20 billion, and you can expect another busy start as the September FOMC decision is Wednesday.

Municipals: Lipper reported combined weekly and monthly outflows of $199 million for the period ending September 13, ticking year-to-date outflows slightly up to $10.1 billion. While net flows are still negative this year, they are much improved from the $140 billion outflows recorded in 2022.

Securitized Products: Despite a slow September start for primary issuance, stable spreads and active secondary trading volumes have market participants expecting a healthy pipeline for the remainder of the year. New Collateralized Loan Obligation (CLO) issue volume is running about 20% behind last year, which has provided a favorable technical for secondary spread levels. CLO investor demand has been strong, with all-in yields close to 7% for AAA floating-rate investments.

Equities: The U.S. equity market ended the week modestly higher as robust economic data outweighed concerns about further rate hikes. The best-performing sectors were utilities, consumer discretionary, and financials, while technology, industrials, and materials were the worst-performing.

High Yield: The benefits of "high" yield are shining through in the third quarter. Since spreads have absorbed the impact of higher rates, coupon income has been the main driver of high-yield performance, accounting for 77% of the asset class's +1.75% total return.