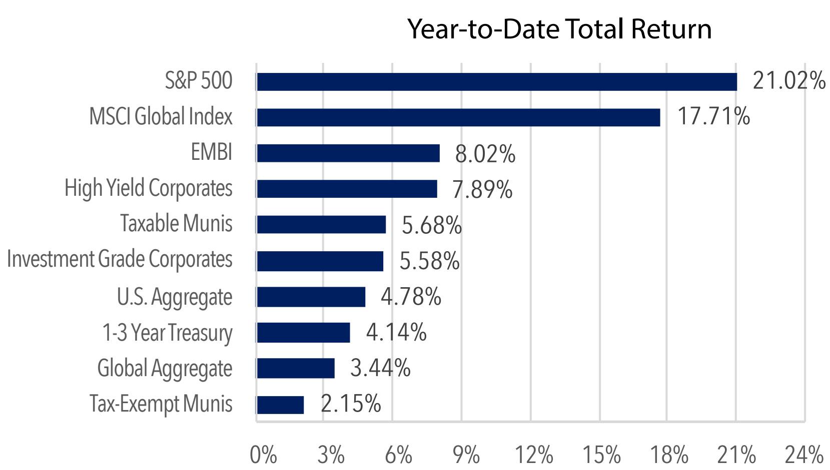
Week Ending: **September 20, 2024**

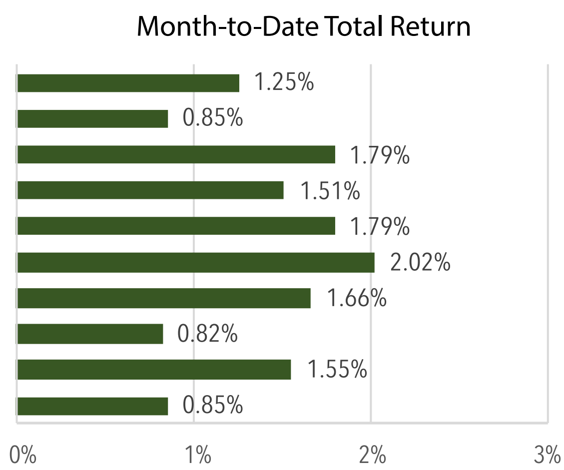
Tenuous Claims

Economic Overview:

This week, the Federal Open Market Committee (FOMC) chose to reduce rates by 50 basis points (bps), lowering the fed funds rate range to 4.75-5.00%. Policymakers justified the larger-than-expected cut with concerns about a softening labor market. In turn, bond markets interpreted the September rate cut as a sign that the Fed will continue to move quickly, pricing in over 200 bps of cuts by July 2025. How likely will the priced-in cuts be realized? Historically, when the Fed slashed rates by 200 basis points or more within 12 months, initial jobless claims, a proxy for layoffs, rose by an average of 35% cumulatively over the same period. Interestingly, this week's data showed initial jobless claims dipped to their lowest level since May (+219k). Further, layoff activity is *down* 6% compared to year-ago levels. So, either layoffs will start picking up rapidly (validating the rate cuts already priced in), or the Fed may go slower than market expectations. In the interim, if the Fed keeps cutting without convincing signs of an economic downturn, it could be a boon for financial markets.

Total Returns by Asset Class





Source: Bloomberg

Highlights of the Week:

High Yield: High yield issuers are taking advantage of the lowest yields they've seen in more than two years to refinance debt. This week, high yield bond yields went below 7% following the Federal Reserve's 50 basis points cut. As a result, we've seen the busiest month of issuance since May, the vast majority of which was used to refinance and extend debt maturities. This is a healthy sign for market fundamentals and should keep defaults at bay for the foreseeable future.

Equities: The U.S. equity market posted a gain for the second consecutive week due to better-than-expected economic data and an accommodative Fed. These market gains occurred despite less-than-stellar corporate earnings. Sector leadership was mixed, with communications, energy, and financials posting strong gains, while consumer staples, real estate, and health care posted losses.

Securitized Products: Performance in GSE credit risk transfer (CRT) mortgage-backed securities remains solid as mortgage rates have rallied considerably toward 6%. Strong consumer fundamentals and low supply have supported home prices. However, the normalizing supply-demand balance and weaker seasonal trends have slowed home price growth. Low gross CRT issuance and issuer bond buybacks contribute to risk premiums nearing levels not seen since the Fed began tightening monetary policy.

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