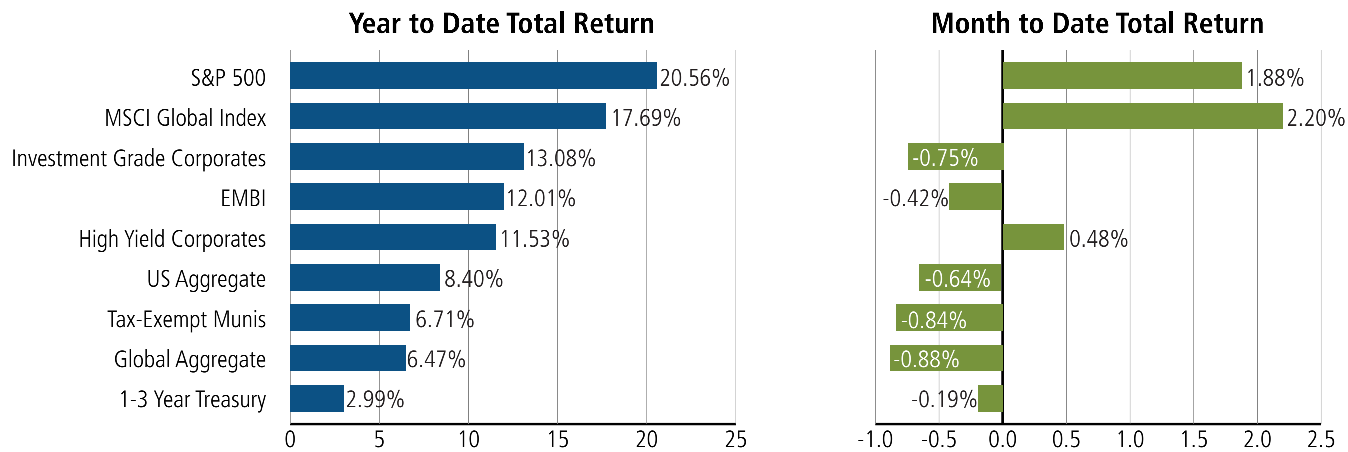
Week Ending **September 27, 2019**

# Housing IS The Business Cycle

## Economic Overview:

At the start of 2019, the U.S. housing sector posed a key risk to our view that the U.S. expansion would continue. Eight months into the year, we have some good news. Data released this week by the Census Bureau for August 2019 showed that new home sales beat expectations handily. The new home sales data came on the heels of existing home sales, housing permits, and housing starts all beating expectations for August 2019. As a result, our Payden Housing Index, an equal-weighted average of the annual growth rate of the indicators mentioned above, is now up 9.9% compared to a year ago. The index recorded its best reading since November 2017 and a dramatic turnaround from its -7% reading at the end of 2018. Since the housing sector (residential fixed investment) has been a drag on overall GDP growth for the better part of the last two years (and not a major contributor to growth for

## Total Returns by Asset Class




## Highlights of the Week:

- **High Yield:** High yield is posting double-digit returns this year. Perhaps surprisingly, higher quality BB-rated and B-rated bonds (+13.0% and +11.3%, respectively) drove those returns. In contrast, CCC's have posted lackluster performance (+6.1%). Not seeing an appetite for higher risk bonds, CCC issuance in 2019 is well below the double-digit levels seen in 2017 and 2018. The reluctance of investors to reach for yield in more speculative bonds is a sign of a healthy market.

- **Corporates:** Investment grade supply saw another $12 billion this week, bringing the month-to-date supply to $141 billion. 80% of this week's supply was debt that matures in 10 years or more as borrowers take advantage of lower rates and tighter credit spreads to lock in funding for longer. Spreads on the Bloomberg Barclays 1-30 year index tightened 5 basis points to an OAS of +115 on the month while the yield on the index rose 12 basis points to 2.93.

- **Securitized Products:** The ABS market gathered in Miami this past week for an annual industry wide conference. Investors, issuers, bankers, traders, and others congregated, exchanged ideas and discussed current themes in the market. Broad topics included regulations, LIBOR phase-out, data, and ESG. As a result, the pace of activity in both primary and secondary markets temporarily slowed while market participants vacated their desk seats. We expect a pick-up in activity next week after the calendar passes quarter end.

- **Equities:** The U.S. equity market fell for the second consecutive week on increased political concerns surrounding the U.S. President's impeachment inquiry. Investor sentiment has turned negative with equities posting losses in four out of the last five trading sessions. In terms of performance, defensive sectors such as utilities and consumer staples led markets higher, while health care and energy sectors were the market laggards.