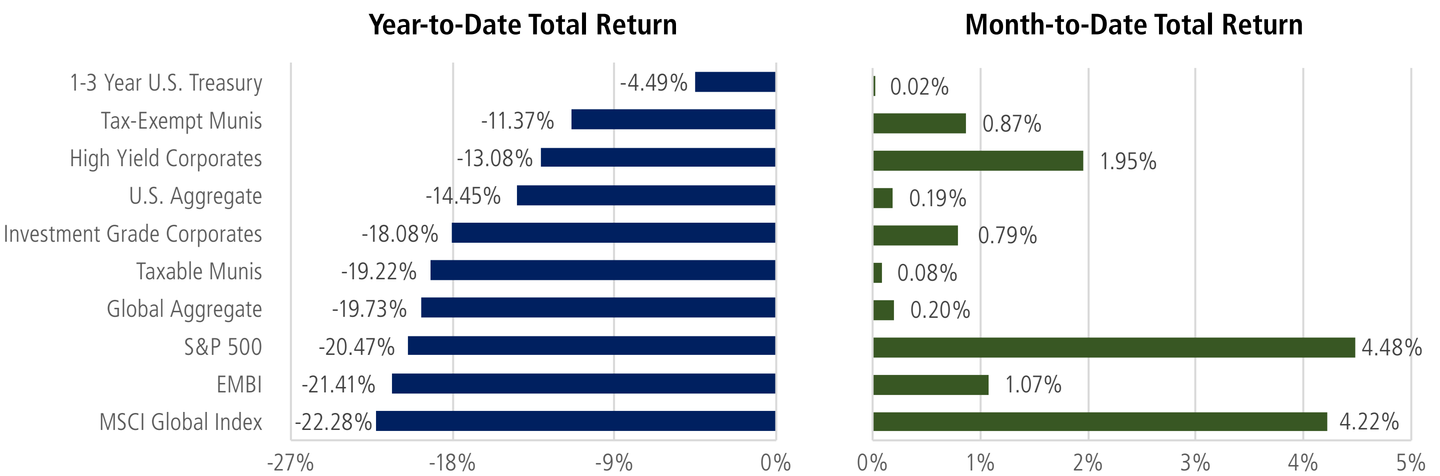
Week Ending: **October 7, 2022**

Anything Is Possible

Economic Overview:

According to data released this week in the Job Opening and Turnover Survey (JOLTS), the number of job openings in the U.S. plunged by more than 1 million in August—the second-biggest monthly drop on record. The only month with a larger decline occurred during the Covid recession. Typically, job opening drops accompany recessions. The courageous among you may wonder: could this time be different? Perhaps. St. Louis Federal Reserve researchers posit that the Covid era job openings surge was strange, not the recent drop. Firms, faced with overwhelming demand, dramatically increased job postings to "poach" workers from other firms. Workers poached from other firms bypassed the unemployed pool altogether as they moved from one firm to the next. Your humble Payden economists see the phenomenon in the JOLTS report's surge in "voluntary separations." Higher wage offers enticed workers to switch firms voluntarily. But, as demand fades, so will poaching. Wage pressures could also shrink, which the Fed would welcome. Also, since poachers weren't hiring unemployed workers, labor demand could fall without a significant rise in the unemployment rate. Soft landing, after all? We'll see.

Total Returns by Asset Class



Source: Bloomberg

Highlights of the Week:

High Yield: The ratings upgrade-to-downgrade ratio is one metric that investors use to gauge the health of the high yield market. 2022's ratio is almost as high as 2021's, which was the highest in over a decade and which indicates that, from a quality perspective, most issuers remain on solid footing. While the market continues to navigate macro headwinds, good credit fundamentals will help keep defaults at bay.

Corporates: Investors may have been hopeful for the start of a recovery in global chipmakers after the Philadelphia Semiconductor Index tanked 36% this year, the most by 2008, however the road to recovery seems to have gotten longer as preliminary earnings shows bellwether Samsung Electronics reporting a 32% decrease in operating income while Advanced Micro Devices expects to miss own forecasts by $1B. Buckle up for a long ride, chip executives and analysts don't expect a bottom for the industry until mid-2023.

Securitized Products: Mixed data for auto ABS investors this week amidst slowing new issue demand and widening spreads. While the unemployment rate fell to 3.5% in September, the Manheim Index for used vehicles fell 3% month-over-month, leaving wholesale vehicle prices down 13% year to date but still 40% higher than pre-pandemic. A gradual and modest fall in vehicle prices would be positive for consumer affordability.

Municipals: Lipper Refinitiv reported $3.1 billion of outflows from municipal bond mutual funds, the 9th consecutive week. This increases YTD outflows to $94.6 billion, a new record.

Equities: The US equity market gained back some of its losses as cyclical and commodity-related sectors led markets higher. Energy, industrials and materials were the best performing sectors, while consumer discretionary, utilities and real estate were the worst performers.