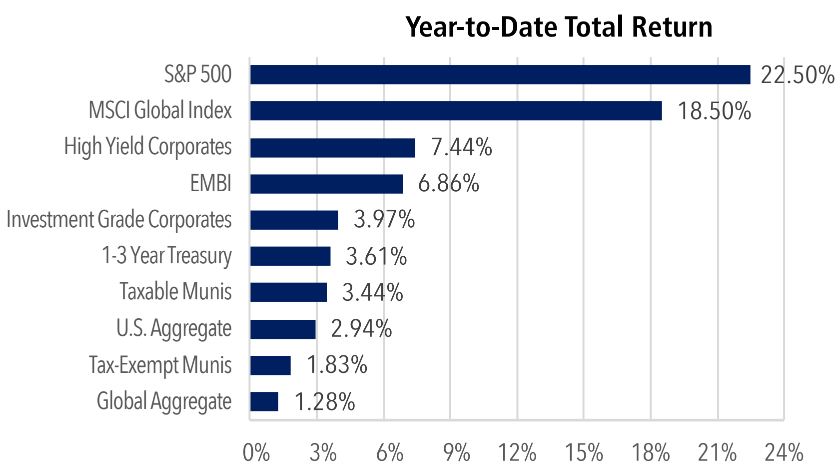
Week Ending: **October 11, 2024**

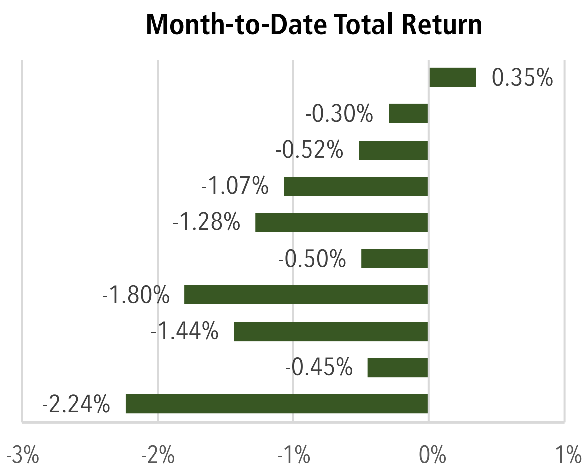
Inflation's Last Stand

Economic Overview:

The shelter component of the Consumer Price Index (CPI) has been a major thorn in the side of consumers and policymakers for over 18 months. Even over the last year, shelter has been the biggest contributor to the rise in core inflation (65%). Nonetheless, shelter prices rose only 0.2% in September, in line with their long-term average monthly rate. More importantly, the six-month annualized rate of change in shelter prices shows the slowdown momentum of shelter. On that measure, shelter prices peaked at 9% in early 2023 but slowed to their softest reading since July 2021 last month! Further, shelter is the "stickiest" component of inflation, meaning that shelter inflation moderates very slowly, but once it does slow down, prices should also be slow to reaccelerate. With inflation pressures in core goods and ex-shelter core services also abating, shelter was the last component keeping core inflation lodged above pre-Covid readings. If September's shelter reading becomes the new trend, the long battle against inflation may be behind us.

Total Returns by Asset Class





Source: Bloomberg

Highlights of the Week:

High Yield: High yield bond yields are higher this month, driven entirely by higher interest rates. While high yield spreads are actually four basis points tighter and returns in excess of Treasuries are positive, all-in yields are 25 basis points higher, which may represent an attractive entry point for those not already invested.

Corporates: This week, S&P placed Boeing on negative watch and is mulling downgrading the credit to junk as ongoing strikes continue to hurt production. With Moody's also rating the company Baa3/negative watch, a downgrade to junk would make it the biggest US corporate fallen angel, with roughly $52 billion of debt falling out of the IG index.

Municipals: Many negative headlines came out of Chicago this week as infighting broke out between the City's financial team and the City Council over the use of savings from a potential $1.5 billion refunding. Several aldermen view the City's plans to use some savings for City operations as fiscally irresponsible. Additionally, all seven Chicago Public Schools board members resigned following a contentious debate regarding how future board members will be chosen and a $300 MM loan to the district.

Equities: The U.S. equity market posted gains for the week supported by optimism surrounding AI chip demand and better-than-expected bank earnings. Sector leadership was mixed, with technology, financials, and industrials ending the week up more than +1.5%, while utilities, communications, and real estate ended the week lower.

Securitized Products: The rally in Agency mortgages, experienced after the Federal Reserve (Fed) cut the overnight lending rate, has paused with the return of rate volatility and higher long-term rates. Mortgage risk premiums (spread) have edged higher to 126 basis points versus the 10-year US Treasury. Refinance opportunities have increased for borrowers who took out home loans with high rates (over 7%) during the past couple of years. According to Freddie Mac, the primary 30-year mortgage stands at 6.32%.