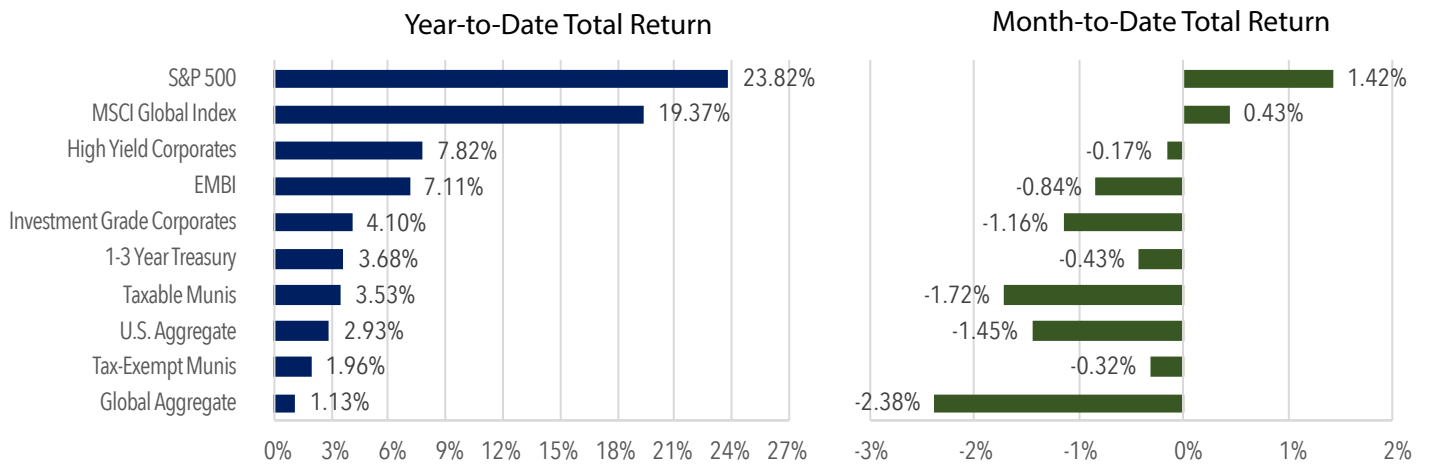
Week Ending: **October 18, 2024**

# Variable Velocity

## Economic Overview:

The direction of travel is clear, but the speed at which global central banks move will vary. This week, the European Central Bank (ECB) reduced rates by 25 basis points (bps), marking its third rate cut this year. Meanwhile, next week features the Bank of Canada's (BoC's) October rate decision. Canada ranks first among the major global central banks in returning inflation to target. According to data released this week for September, the BoC's target measure of inflation, the trimmed mean Consumer Price Index (CPI), registered within its target range for the eighth month this year (it popped above the target in April before subsiding again). Headline CPI also dipped below 2% in September. Further, Canada's stickiest inflation component, housing, has moderated substantially since June. With inflation close to hitting target and much weaker domestic demand, there are more reasons for the BoC to go faster than the Fed and the ECB. With that backdrop, the BoC may lower its policy rate by 50 bps instead of 25 bps next week.

## Total Returns by Asset Class




Source: Bloomberg

## Highlights of the Week:

**High Yield:** Refinancing transactions have represented 78% of bond deals and 87% of loan deals so far this year. Issuers are primarily focused on extending maturities, reducing interest expense, and preserving balance sheet flexibility rather than increasing leverage.

**Corporates:** New issue supply hit $26 billion, dominated by U.S. banks issuing post-earnings. The demand for investment-grade corporates remains strong, as almost all new issues are performing tighter on the break. The option-adjusted spread on the corporate index ground tighter to 79, the tightest level we have seen since 2005.

**Municipals:** Flows into municipal bond funds remain strong, reflected by 16 consecutive weeks of inflows. For the weekly period ending 10/16/24, LSEG Lipper recorded $1.7 billion of inflows, $1.1 billion of which targeted ETFs, while the remainder went to open-end funds.

**Equities:** The U.S. equity market ended the week higher, making new record highs, supported by better-than-expected corporate earnings and stronger economic data. Nearly all sectors posted gains, with utilities, real estate, and financials leading the way, while energy, health care, and industrials were the market laggards.

**Securitized Products:** Performance in GSE credit risk transfer (CRT) mortgage-backed securities remains solid despite mortgage rates giving back some of the recent rally and hovering around 6.5%. 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. Fannie Mae and Freddie Mac are now finished with CRT issuance for the year, which should continue supporting the constructive supply technical.