WEEK IN **REVIEW**

Payden&Rygel

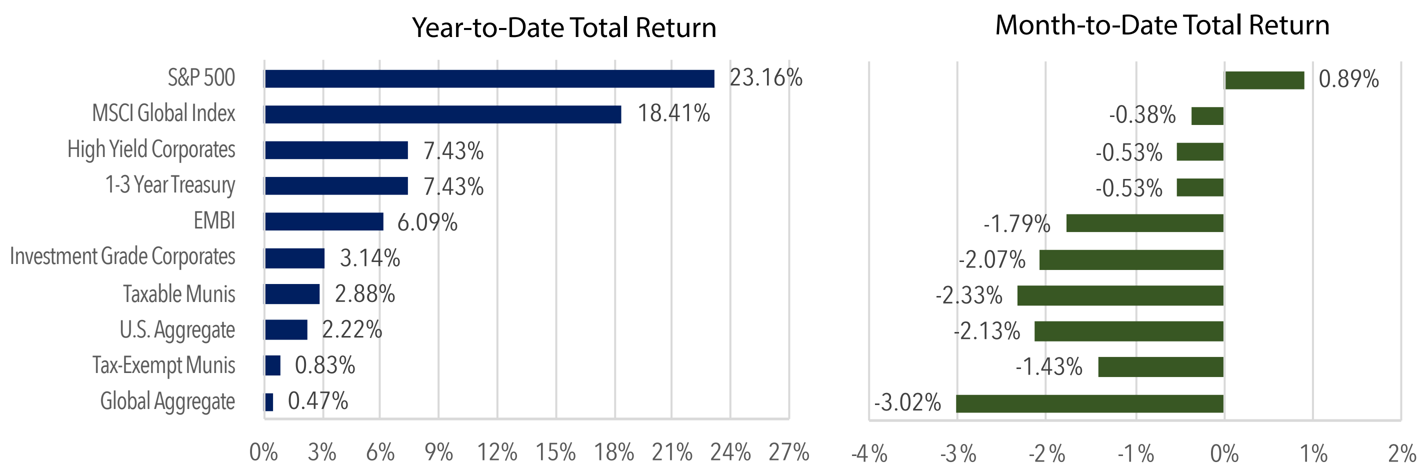
Week Ending: **October 25, 2024**

Bond Bounce

Economic Overview:

In early August, investors interpreted softer summer jobs reports as a sure-fire sign the economy was rolling over. Some investors even touted the need for an "inter-meeting" emergency rate cut to stave off the inevitable downturn. In response to labor market concerns, the Federal Reserve cut the policy rate by 50 basis points in September. But now, interest rates are…higher? The benchmark 10-year U.S. Treasury yield touched a near-term low of 3.65% in mid-September before topping 4.20% this week. What's changed? Economic data positively surprised forecasters on employment and income growth, pointing to continued economic growth. Perhaps it's no surprise then that 10-year yields are higher, as they tend to follow the ebbs and flows of the economic data. Two questions remain. First, should investors prepare to be surprised to the upside, or are bonds more reasonably valued than during the summer growth scare? We find ourselves in the latter camp. Second, do higher yields portend danger for risk assets? Not necessarily. Bond yields rising in response to more robust growth bodes well for stocks and credit.

Total Returns by Asset Class



Source: Bloomberg

Highlights of the Week:

High Yield: Changes in interest rates explain most of the difference in performance between high-yield bonds and loans. At one point earlier this month, bonds were ahead of loans by +7.9% to +6.6% on a year-to-date basis, but as Treasury yields have spiked this month, loans are now back in the lead at +7.5% vs. 7.3%. A diversified portfolio of bonds and loans can generate attractive returns while reducing aggregate portfolio volatility.

Corporates: It was another slow week of issuance, with just $12 billion coming to market, bringing monthly figures to $71 billion. With four more trading days this month, we are on track for the first month below $100 billion this year. Despite this, total supply is up 24% on the year at $1.35 trillion.

Municipals: Following Wednesday's worst performance in two years for some parts of the curve, the muni market began to rebound on Thursday. Sentiment improved as investors took advantage of attractive buying opportunities, and LSEG Lipper posted a 17th consecutive week of positive net inflows of $515 million into muni bond funds.

Equities: The U.S. equity market ended the week modestly lower, snapping six consecutive weeks of gains on the back of mixed corporate earnings results. Most sectors posted losses, with materials, health care, and industrials leading markets lower, while consumer discretionary, technology, and communications were the best-performing sectors.

Securitized Products: ABS, RMBS, and CLO investors attended the ABS East conference in Miami this week. The tone was bullish, and major themes were favorable technicals, benign fundamentals, tight spreads, and investors having cash to put to work. Spreads were tighter this week after the conference, and the increase in supply ahead of the election has been well absorbed.