Week Ending: **October 28, 2022**

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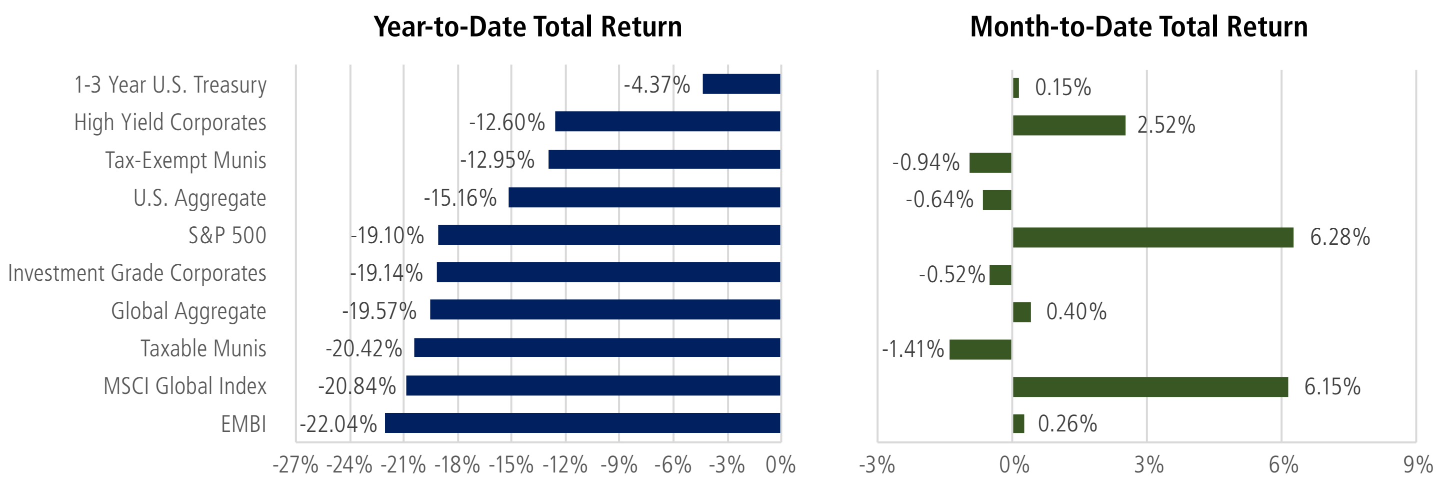
Economic Overview:

The yield on a three-month Treasury bill rose above the yield on a 10-year Treasury note this week, sparking chatter about "yield curve inversion" and recession. As yield curve connoisseurs, we delight in the opportunity to opine on the 3m10s curve meaning. First, we suggest waiting for the monthly average 3m10s yield curve before jumping to conclusions (we can still recall days in 1998 when 3m10s inverted and then later steepened). Second, the economy is not in a recession at the moment, nor is one likely to start tomorrow. Q3 U.S. GDP grew at a 2.6% annual rate, making up for the first-half decline in output. Third, while the yield curve has inverted before each of the last eight recessions (including nine months before the Covid recession!), the lags can be long and variable, with seven to 16 months elapsing between inversion and the start of a downturn. If the inversion holds (which seems likely as we expect the Fed to hike 75 bps next week, raising front-end rates), it might be time to start the countdown clock on the next official downturn.

Total Returns by Asset Class



Source: Bloomberg

Highlights of the Week:

High Yield: Since the beginning of 2022, the face value of high yield bonds outstanding has fallen 10%, from $1.52 trillion to $1.37 trillion. The reduction in high yield bonds outstanding is partly due to issuer deleveraging but also significant rising star activity, as rating agencies have upgraded high yield issuers to investment grade at the fastest rate in over a decade.

Corporates: Investment grade corporate new issue supply picked up yet again, with this week alone almost doubling the month's supply to over $75 billion—surprisingly meeting October estimates after being largely off track until this week. This week also marks the first time supply has met street expectations after nine consecutive weeks of falling short. Notably, UnitedHealth Group led all issuers this month, coming to market with $9 billion in new debt, partially to fund their acquisition of Change Healthcare.

Securitized Products: US CLO's primary supply was light during the ABS East conference. Year-to-date issuance totals $133 billion, including $111 billion new issue and $22 billion refi/reset/re-issue. CLO spreads remain volatile towards the end of the month, given the pressure from redemption and outflows.

Municipals: Lipper Refinitiv reported a 12th consecutive week of outflows from municipal bond funds. Funds shed $1.8 billion for the most recent week, increasing year-to-date outflows to a record $104.8 billion.

Equities: The equity market ended the week higher for the second consecutive week on better-than-expected corporate earnings results, overcoming disappointing results from some mega-cap tech companies. Defensive sectors, which include consumer staples, utilities, and REITs led markets higher, while communications and consumer discretionary were the lone negative performers.