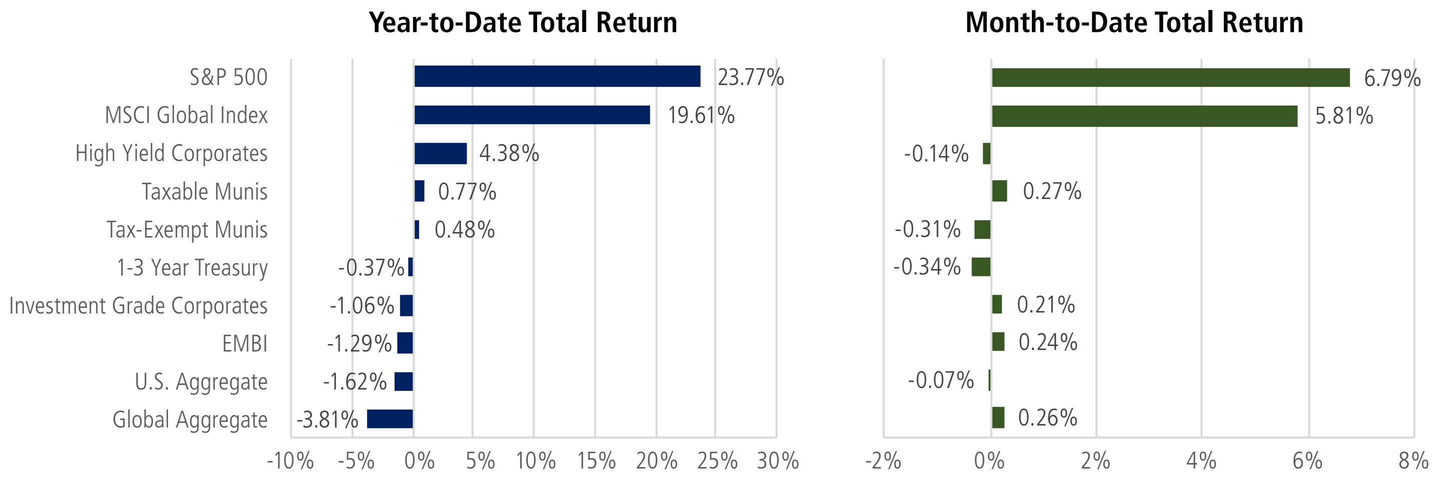
Week Ending: **October 29, 2021**

Oh My GOODness

Economic Overview:

U.S. GDP grew at just a 2% annualized rate in the third quarter, a sharp deceleration from the 6.7% rate achieved in Q2. Shortages of goods to buy likely explain the slowdown, though. Durable goods spending (e.g., autos) shrank at a 26.2% annualized rate during Q3, enough to chop 2.7 percentage points from top line growth. Interestingly, the Q3 slump arrived after an epic surge in goods spending over the preceding four quarters—demand that had fueled the global economy. The unprecedented demand for overseas goods ballooned the trade deficit and clogged U.S. ports. In Q4, goods spending may rebound somewhat. For example, automakers might produce more cars to meet demand. Still, the epic, stimulus-fueled goods demand from previous quarters will probably recede in 2022, as consumers devote more of their hard-earned income and savings to services. Even after the Q3 slowdown, spending on durables remains 23% above pre-Covid levels.

Total Returns by Asset Class



Source: Bloomberg

Highlights of the Week:

- **High Yield:** With a two notch upgrade from Ba1 to BBB from S&P, Netflix will catapult into the investment grade index in November. As high yield issuers continue to improve free cash flow while maintaining historically strong balance sheets, the pace of rising star upgrades is likely to continue.
- **Corporates:** Amazon released Q3 earnings on Thursday missing both top and bottom-line expectations as the company battled supply chain constraints and consumers headed back to brick-and-mortar retailers. In addition, forward guidance for the holiday season was tepid as the company warned of several billion in extra costs ranging from employee wages to freight and shipping.
- **Securitized Products:** Spreads for asset-backed securities (ABS) held relatively firm this week despite the back-up in front-end Treasury yields and the widening of swap spreads to the highest level since April 2020. The supply calendar continues to be robust, and while there was less demand for new issue deals, secondary trading remained healthy at these higher all-in yields.
- **Municipals:** The latest iteration of the $1.75 trillion Build Better Plan, released on Thursday by President Biden, includes select tax hikes, such as a 15% minimum tax on corporate profits for companies earning over $1 billion, as well as spending allocations for various soft infrastructure projects. Muni-market specific provisions like Build America Bonds (BABs) and tax-exempt advance refundings were not included in this version of the bill.
- **Equities:** The U.S. equity market rallied for the fourth consecutive week as better-than-expected third quarter corporate earnings results drove equity prices back to record highs. The best performing sectors were consumer discretionary and communications, while the worst performing sectors were financials and energy.