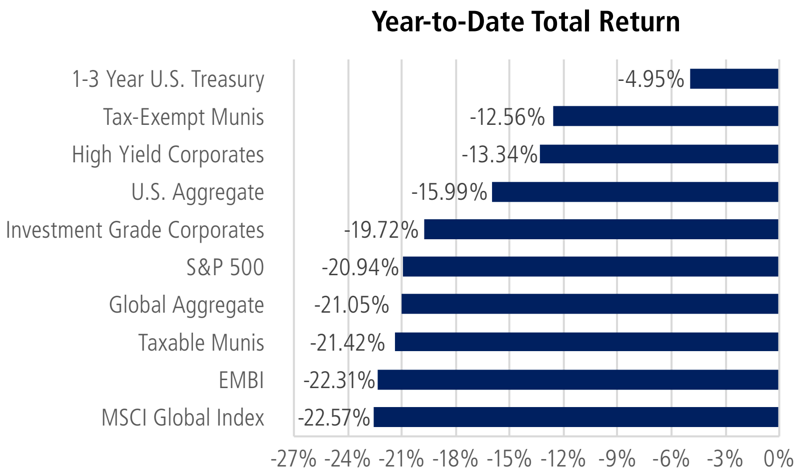
Week Ending: **November 4, 2022**

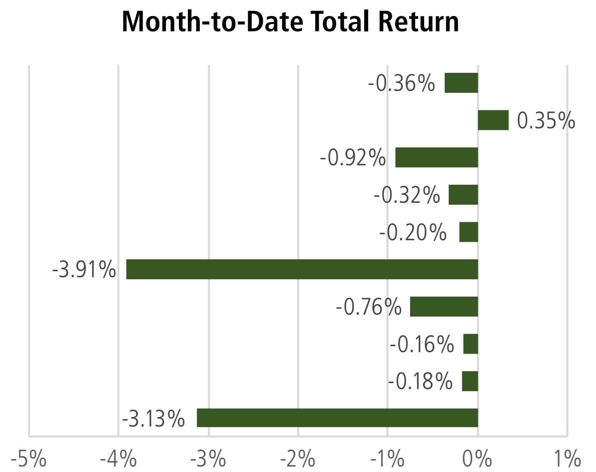
Can't Stop, Won't Stop

Economic Overview:

The November 2022 Federal Open Market Committee (FOMC) meeting brought another gut punch to the bond market. At first, with the policy statement issued after the meeting, the FOMC promised to "take into account the cumulative tightening," "lags," and "financial developments," hinting at a policy pause soon. But the message tilted hawkish when Chair Powell stepped to the podium half an hour later. He said the economy, particularly the labor market, is still too strong and inflation too high to allow the Fed to stop hiking. Powell said that the Fed still "has a ways to go to reach sufficiently restrictive levels" of rates and advised that it is "very premature" to discuss pausing rate hikes. He also inveighed against "prematurely loosening policy until the job is done [returning inflation to 2%]." All told, the Fed may step down the pace of hikes (say, from 75 to 50 bps) but end up at a higher "terminal rate" (5.50%) and keep rates higher for longer than the bond market currently imagines. At least for now, the Fed can't—and won't—stop.

Total Returns by Asset Class





Source: Bloomberg

Highlights of the Week:

High Yield: While volatility remains elevated, default rates remain low. For the first time since 2018, October saw zero new defaults. Despite higher rates and wider spreads, strong fundamentals keep defaults at bay.

Corporates: The Bloomberg US Corporate Index tightened three basis points on the week to 155 basis points. Issuance started with $8 billion pricing Monday and Tuesday. The Comcast Corp for $2.5 billion across three tranches was the largest. Around $12 billion in total new debt was priced this week.

Securitized Products: CMBS spreads were marginally wider in a week dominated by U.S. macroeconomic events. Market participants continue to focus on property price adjustments, particularly in the office sector, where higher interest rates and post-COVID work-from-home dynamics have wrought concern. In the slow primary market, a new issue conduit deal began marketing this week with the 10-year super senior AAA talked at +188 bps to term financing rates.

Municipals: While the two-year Treasury yield increased by 27 basis points this week on the expectation of a higher federal funds rate, the two-year municipal yield declined by one basis point as limited new issue supply supports the market.

Equities: The US equity market fell as the Fed remained hawkish at their FOMC meeting, despite better-than-expected corporate earnings results. Growth-oriented sectors communications, technology, and consumer discretionary led markets lower, while energy, materials, and industrials were the best performers.