

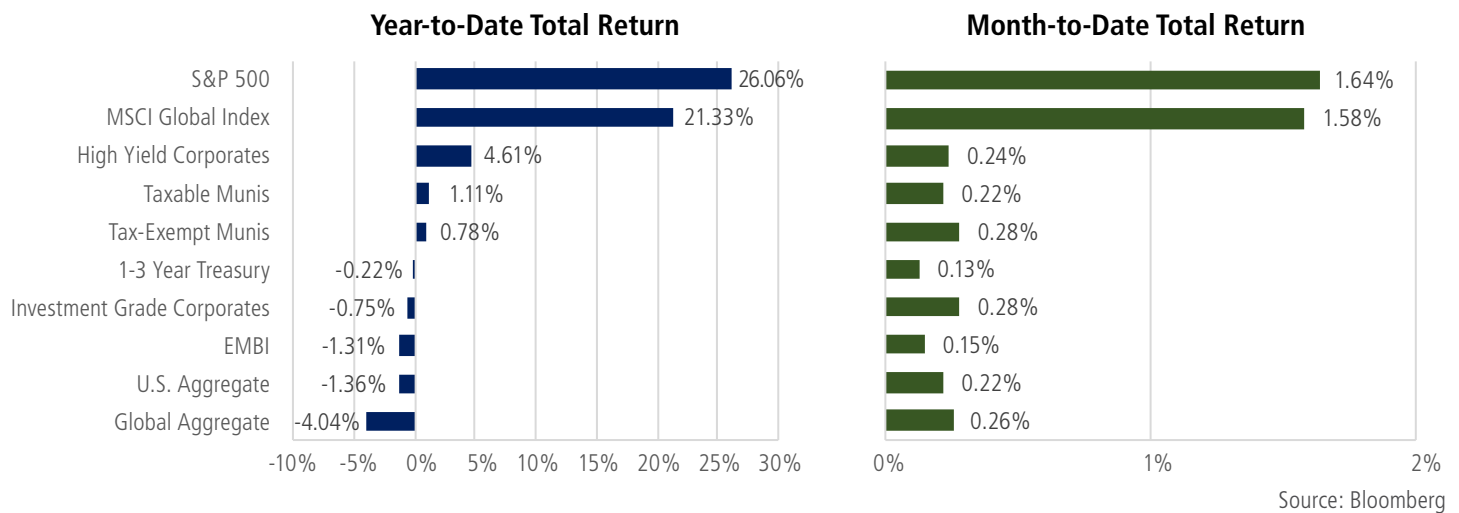
Week Ending: **November 5, 2021**

Know It When We See It

Economic Overview:

Investors have bet that elevated inflation will force central banks to hike policy rates next year. Three central bankers pushed back this week. The Reserve Bank of Australia's Phillip Lowe said, "The latest data and forecasts do not warrant an increase in the cash rate in 2022." Meanwhile, the Bank of England's Andrew Bailey called hike expectations "overdone." Finally, Fed Chair Jerome Powell reiterated that while economic conditions warranted a tapering (now underway), a decision on "liftoff" faced a "separate and far more stringent test." A crucial part of the test requires more progress both in terms of unemployment and in terms of participation. The grid shows the number of monthly job gains needed to reach a given unemployment and labor force participation rate by the expected end of tapering (mid next year). [Given the liftoff test reaffirmed by Powell, the chances of multiple rate hikes in 2022, while not impossible, appear to be lower than many commentators suggest.](#)

Total Returns by Asset Class



Highlights of the Week:

High Yield: October delivered the first negative monthly return for high yield since September 2020. The culprit wasn't a change in the fortunes of high yield issuers, it was rising rates. Net of the impact of rate moves, the broad high yield index actually posted a positive return for the month.

Corporates: Pfizer released results that show its Covid-19 antiviral pill, when taken with a widely used HIV drug, is 89% effective in cutting hospitalization and death among patients who received the pill within three-days of the start of symptoms. The pill is seen as a major milestone toward fighting the pandemic. Distribution could become available as soon as year-end, with Pfizer announcing it currently has the capacity to produce 500 million pills, or 50 million treatments.

Securitized Products: The agency mortgage-backed securities (MBS) market was volatile this week as a result of the Fed's announcement to begin tapering its asset purchases. In non-agency MBS, Zillow stole the headlines with news of closing their home buying business and company layoffs. Zillow has over \$1 billion revolving MBS outstanding in securitized markets.

Municipals: After Tuesday's polling, preliminary results indicate that U.S. voters are slated to approve at least \$14.9 billion of local-government debt sales on ballots in this year's election. A total of \$27 billion municipal bond issuances were up for voter approval this year and included measures benefiting school constructions projects, flood-prevention measures, and water system improvements.

Equities: The U.S. equity markets rallied for the week, extending its weekly winning streak to five. Equity prices hit record highs driven by strong corporate earnings, the robust jobs report, and a Fed that continues to remain accommodative. The best performing sectors were consumer discretionary and tech, while health care and financials lagged the broader market.