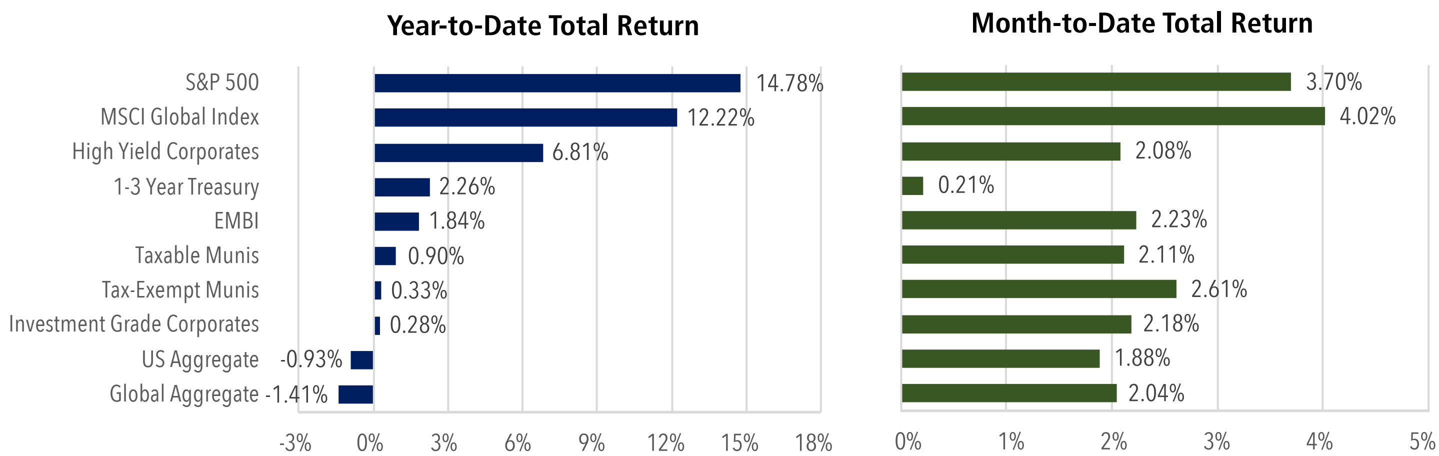
Week Ending: **November 10, 2023**

A Long Pause

Economic Overview:

This week, the Reserve Bank of Australia (RBA) raised its policy rate, the cash rate, by 25 basis points. Why the sudden interest in our monetary friends in the southern hemisphere, you wonder? Well, the RBA may have thought/hoped they were "done," pausing their rate hike cycle for five months. Indeed, they were the first major central bank to move to an "on hold" stance, as the Fed has lately followed. But as we've counseled, the data will decide where rates go next, not policymakers or the market. The Aussie unemployment rate remains low, while core inflation is sticky. In the words of RBA Governor Michele Bullock, "The weight of (the data) suggests that the risk of inflation remaining higher for longer has increased." More broadly, bond investors have repeatedly guessed wrong, thinking central banks were done, only to be disappointed later. Another wave of market expectations about the cessation of hiking has swept the bond market in recent weeks. For investors, the RBA example should serve as a cautionary tale.

Total Returns by Asset Class



Source: Bloomberg

Highlights of the Week:

High Yield: As the Fed raises rates to lower consumption and reduce inflation, we recall that in eras past, more drastic measures had to be taken. During World War II, the government engaged in a massive sale of war bonds to reduce inflationary pressures from wartime spending. The U.S. Treasury sold $186 billion of bonds, or $3.2 trillion in today's dollars! Then, as now, America's soldiers were doing the hard work to defend our country. Thank you to all of America's veterans!

Corporates: With rates falling earlier in the week, issuers took advantage as 32 companies across various sectors tapped the primary market for over $40 billion, pushing monthly totals to almost $50 billion. With strong demand for most deals, dealers have been able to tighten pricing by more than 20 basis points on average from the initial price talk. Still, most deals have performed well in secondary trading.

Municipals: Following the sharp rally in rates and a strong start to November, the Bloomberg Municipal Bond Index turned positive on Wednesday for the first time since the end of September.

Equities: The U.S. equity market ended the week higher in a quiet week of trading. Trading volumes fell for the week as investors digested the recent surge in equity prices despite interest rates remaining volatile due to hawkish comments from Fed members. Technology, communications, and industrials were the best-performing sectors, while materials, real estate, and energy were the market laggards.

Securitized Products: The Commercial Mortgage-Backed Securities market showed optimism this week as bonds seemed to catch a bid after investors endured whiplash from the 10-year Treasury yield descending 10% from recent highs. However, investors remain vigilant as fears of the lag effects of rate hikes and continued macroeconomic volatility persist.