

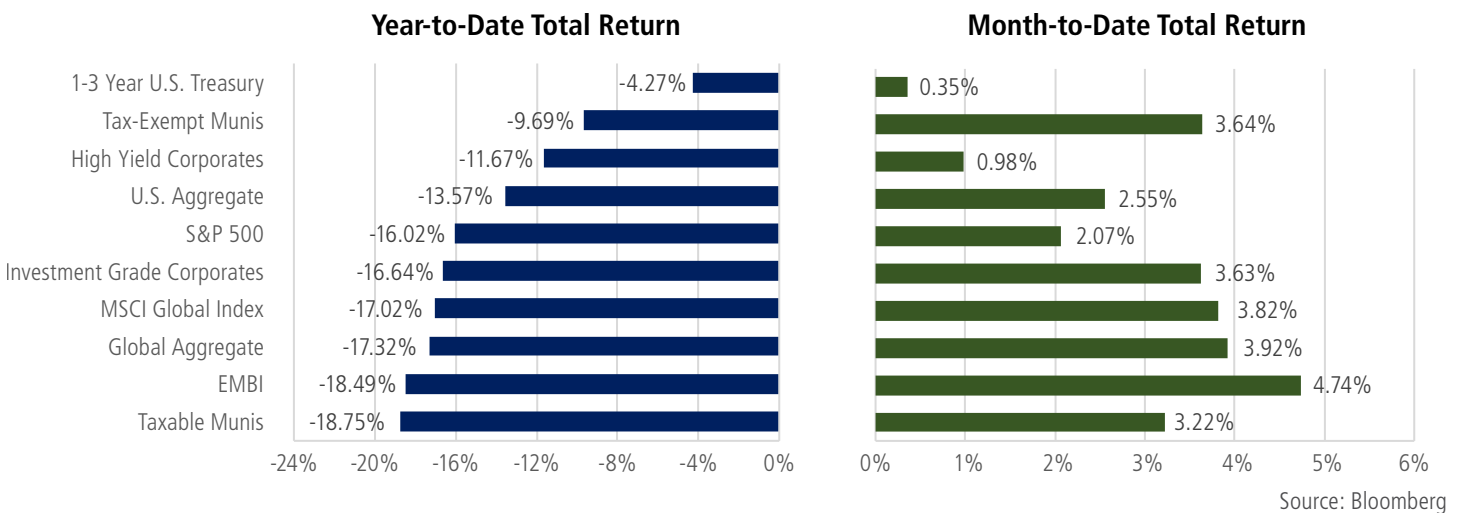
Week Ending: **November 18, 2022**

Inflation Obsessed

Economic Overview:

The October U.K. Consumer Price Index (CPI) topped expectations this week, [reaching 11.1% year-over-year, the highest reading in 41 years](#). Similarly, core CPI, which excludes food and energy, hovered at 6.5%, marking another multi-decade milestone. Another "core" measure that excludes food, energy, alcohol, and tobacco, registered 5.8% year-over-year. All year long, we've been fighting off arguments that inflation was "just energy" or that "inflation was due to supply bottlenecks affecting goods prices." Mounting evidence suggests price pressures have only broadened in the U.K. (as in Europe and the U.S.), with services inflation notching 5.3% year-over-year in October, compared to the pre-Covid average of 2.3%. Moreover, price pressures have persisted *despite* monetary tightening *and* slumping economic growth. Last week, Bank of England Chief Economist Huw Pill advised that the BoE is not inflation obsessed. But with the above picture, any hope of central banks pivoting away from the inflation fight must wait.

Total Returns by Asset Class



Highlights of the Week:

High Yield: Speculative-grade energy issuers, once a black eye of the high yield market, have been some of the best-performing corporate bonds in 2022. Elevated oil and natural gas prices and disciplined energy company management teams have led to strong credit profiles in the sector.

Corporates: Investment grade (IG) corporates started the week with \$25 billion in new supply and had strong demand in the primary and secondary markets. However, after hawkish rhetoric from the Fed caused rates to trend back up, most IG issuers stood down for the remainder of the week, with no new supply on Thursday or Friday. Amidst the volatility, IG corporate spreads have held up, tightening nine bps week-to-date with the Bloomberg US Corporate Index OAS at +138 bps as of Thursday.

Securitized Products: This week, the ABS market enjoyed its first cell tower issuance since February. SBA Communications issued \$850 million of secured debt with a five-year maturity at an interest rate of 6.7%, ~280 bps above a comparable Treasury security. The spread pick-up compared to corporate alternatives was the widest in five years, and the attractive ABS spread level garnered broad interest across market participants. The tower industry has strong secular tailwinds, with North American mobile data traffic expected to grow ~25% per year for the next five years.

Municipals: Last week, both online betting proposals (Props 26 and 27) on the ballot in California failed, but voters approved Prop 31, banning the sale of flavored tobacco. Voters shot down Prop 30, which would have imposed an additional 1.75% tax on income over \$2 million. Still, voters in Los Angeles passed the "mansion tax," levying a 4% transfer tax on sales of properties worth more than \$5 million and a 5.5% transfer tax on sales of \$10 million or more.

Equities: The US equity market ended slightly lower following last week's rally as mixed corporate earnings and comments from Fed members weighed on market sentiment. The consumer discretionary, energy, and real estate sectors led markets lower, while consumer staples, health care, and communications were the best performers.