Payden&Rygel

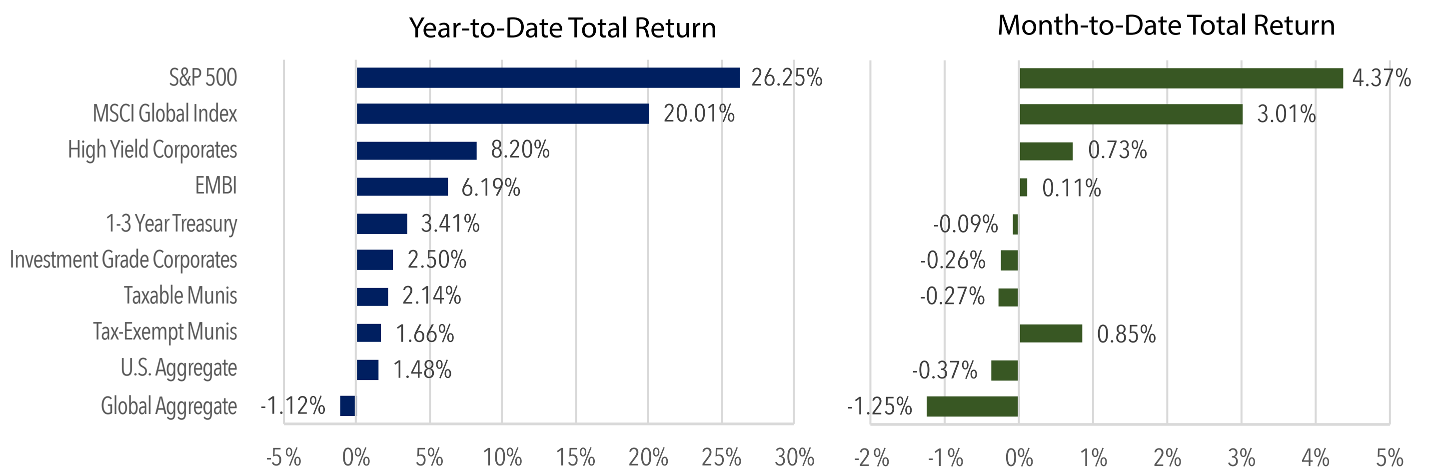
Week Ending: **November 22, 2024**

Moderating Services

Economic Overview:

This week, the U.K. Consumer Price Index (CPI) report showed that the headline CPI increased 0.6% over October, led by a significant jump in energy prices, pushing the year-over-year CPI rate from 1.7% to 2.3%. However, as the Bank of England Deputy Governor Ramson said in a speech this week, "Recent past may not be a good guide to the future outlook for the persistence of domestic wages and price setting." Indeed, core CPI, which excludes volatile food and energy components, already slowed to 3.5% year-over-year in October compared to 5.1% at the start of the year. Further, the three-month average annualized monthly rate in services prices, the stickiest component of inflation, moderated to 2.3% as of October, the slowest since 2021. Even alternative measures of services inflation that exclude volatile components have shown signs of easing. Given still elevated core inflation levels, the Bank of England may not be able to cut rates at the pace of its global peers, such as the euro area and Canada, but the trend in inflation and softer growth should support additional easing in policy rates in the next six to 12 months.

Total Returns by Asset Class



Source: Bloomberg

Highlights of the Week:

High Yield: While headline returns have been strong this year, sector-level dispersion remains high, as more than 900 basis points separate the returns for the best and worst-performing sectors. Active management remains crucial in the current environment.

Corporates: Technicals within the IG Corporate asset class remain strong heading into year-end. This week, another $36 billion was priced within the primary market, pushing year-to-date totals to $1.455 trillion. The issuance was easily absorbed as we saw an almost 10x increase week-over-week of inflows into the asset class at $9.2 billion, its largest since early March. Corporate spreads remain at historic tights with an option-adjusted spread of +78.

Municipals: State and local governments have issued more debt this year than ever before, selling about $460 billion in total. With five weeks remaining in 2024, the final historical issuance levels will be even higher.

Equities: The U.S. equity market rallied for the week, driven by better-than-expected corporate earnings results, which offset increased geopolitical tension. Sector leadership broadened out, with nearly all sectors posting gains. Utilities, consumer staples, and materials were the best-performing sectors after gaining more than +2%, while communications, financials, and technology were the market laggards.

Securitized Products: Macro-market fundamentals remain supportive of mortgage credit. The persistent supply shortage has kept home values growing nationally despite affordability issues from elevated mortgage rates and peak price levels. There is notable geographic dispersion, however. Recovering inventory levels in Florida and Texas are causing slower home price growth and modest declines. Areas with constrained inventory and stronger performance include California and the Northeast.