

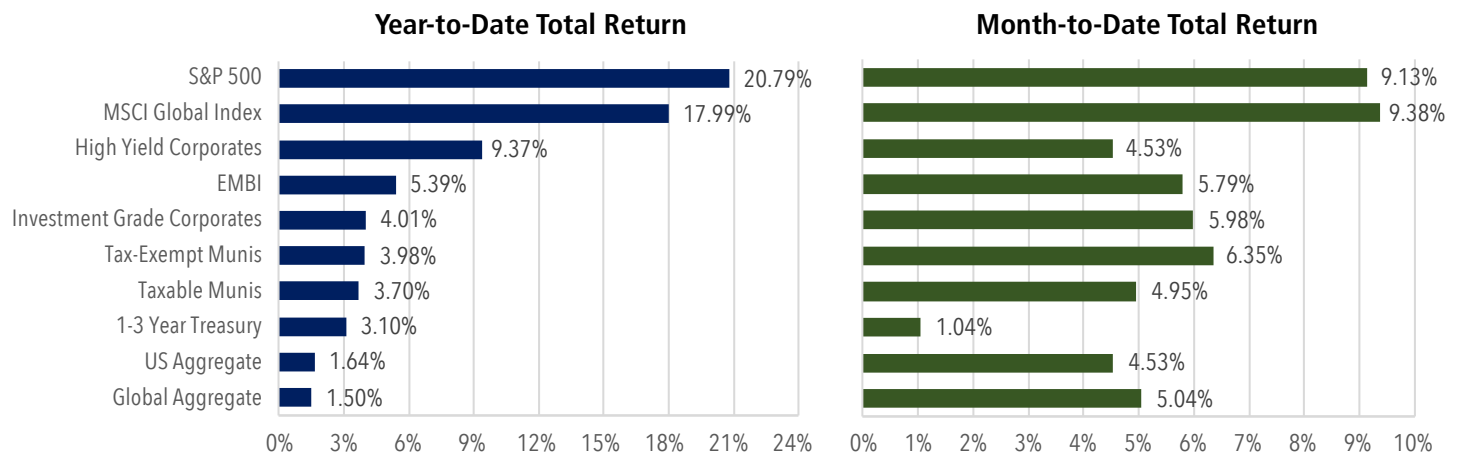
Week Ending: **December 1, 2023**

Which Flight Are You On?

Economic Overview:

Over the last year, we've discussed the possibility of a U.S. soft landing, but what about "landings" elsewhere? This week, we visited European clients to see how Europe has fared as the ECB tightening cycle progressed. Interestingly, despite facing unique challenges, overall euro area core inflation paralleled the U.S., falling to 3.6% year-over-year from 4.2% in November, while the unemployment rate stayed low (6.5%). At the country level, the picture is more diverse. Remarkably, Spain's core inflation and unemployment rate decreased notably compared to levels seen when the ECB began hiking. France posted similar results. Meanwhile, Germany and Italy experienced persistent inflation along with resilient labor markets. The Dutch were disappointed with higher inflation but enjoyed a fall in unemployment (a "no landing"). [So, while we can't paint the globe with too broad a brush, neither should we gloss over the slowdowns in inflation that have occurred without a labor market calamity, a feat deemed impossible a year ago.](#)

Total Returns by Asset Class



Source: Bloomberg

Highlights of the Week:

High Yield: November saw high yield post its fourth-strongest return in the last ten years as investors grew more optimistic about the economy and the likely end of Fed rate hikes. Even after this rally, the asset class still yields a healthy 8.5%.

Equities: The U.S. equity market rallied for the fifth consecutive week as interest rates stabilized and corporate earnings came in better than expected. Market leadership reflected a bias for value-oriented stocks, with real estate, materials, and industrials leading markets higher, while communications, technology, and consumer staples were the market laggards.

Securitized Products: European Collateralized Loan Obligation (CLO) spreads followed other risk markets tighter over the last few weeks, ending the month close to their 2023 tights. Weekly secondary market trading has been in line with the yearly average this month, with demand focused on short-deleveraging AAA-rated bonds.