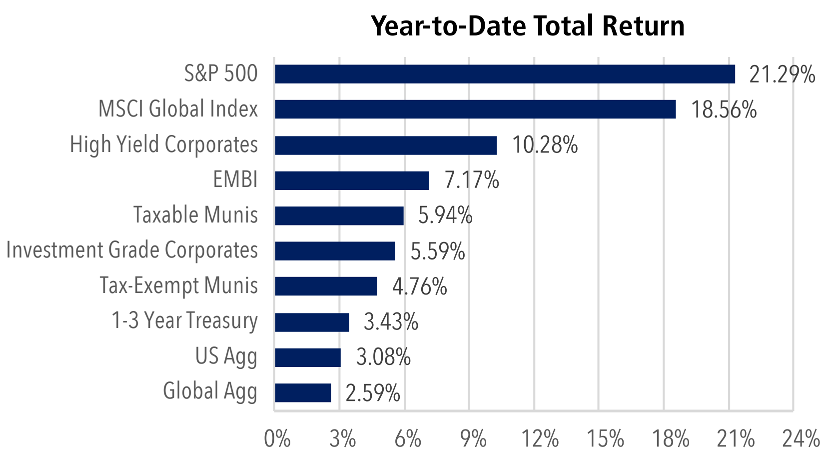
Week Ending: **December 8, 2023**

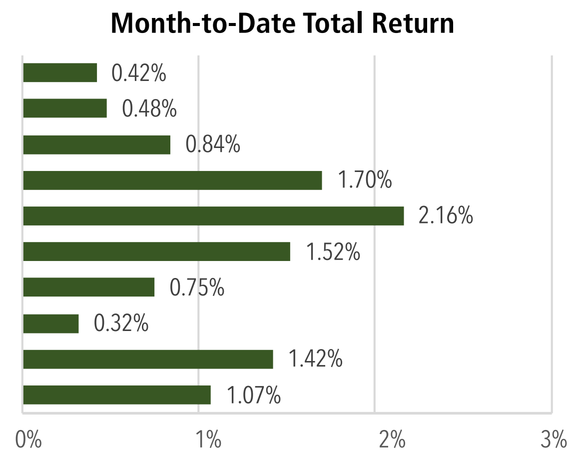
Great Expectations

Economic Overview:

As a member of our team continued their trip from the euro area across to the United Kingdom this week, meeting clients, gawking at hotel room nightly rates, and struggling to find a booking at restaurants, we were puzzled to see global bond markets pricing substantial monetary policy easing in the next year. At the very least, restaurants would be less crowded if central bankers were at the precipice of lowering rates to combat slowing growth or an economic contraction. Some clients have wondered if the market pricing merely coincides with the market validating the "soft landing," allowing central banks to start easing in H1 2024. We're skeptical. A "soft landing" means inflation slows without a significant rise in unemployment. Take the ECB. Monetary easing of 150 basis points in 2024 is more in line with inflation quickly returning to 2% and markedly higher unemployment, which would be required to convince central bankers that lower inflation will be sustained. Could "it" happen? Yes, possibly—but tread cautiously given the market's already great expectations.

Total Returns by Asset Class





Source: Bloomberg

Highlights of the Week:

High Yield: Broadly syndicated loans, with their floating rate feature, have been the laggard since rates started falling at the end of October, trailing high-yield bonds by -3.96% and investment-grade bonds by -5.71%. Nonetheless, they remain the winners in 2023, outperforming both asset classes year-to-date for the second consecutive year.

Corporates: As the year wraps up, investment-grade corporates saw $21 billion of new issue supply this week, bringing the year-to-date total to $1.2 trillion. Corporate spreads are one basis point wider on the week at an option-adjusted spread (OAS) of 106, just two basis points wider than the year-to-date low of 104 achieved last week.

Municipals: November's return of 6.35% for the Bloomberg Investment-Grade Municipal Bond Index was the best monthly total return for the municipal market since August 1982. This strength flipped year-to-date performance from negative to a positive 3.98%.

Equities: The U.S. equity market ended the week unchanged on mixed economic data and corporate earnings results. The best-performing sectors were more growth-oriented (e.g., communication, consumer discretionary, tech), benefiting from Alphabet introducing their latest Artificial Intelligence offering and semi-conductor maker AMD providing upbeat guidance. Conversely, energy, materials, and real estate were the market laggards.

Securitized Products: Collateralized Loan Obligations (CLO) investors and issuers gathered in southern California this week for the annual Opal CLO Summit. Overall, the conference was well attended, and the tone was positive, given the better-than-expected performance in the asset class. The two key themes were private credit and new issue CLO formation. Moreover, secondary CLO spreads continue to rally as the market prices in a soft landing with all-in yields of AAA-rated CLOs still north of 6.5%.