# Market Update

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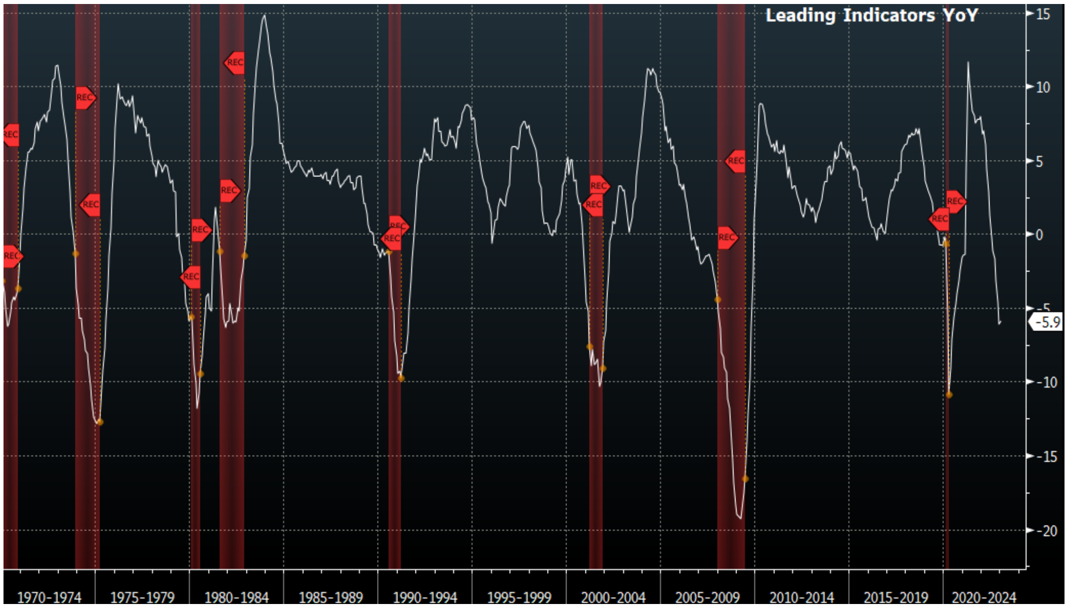
## March 2023

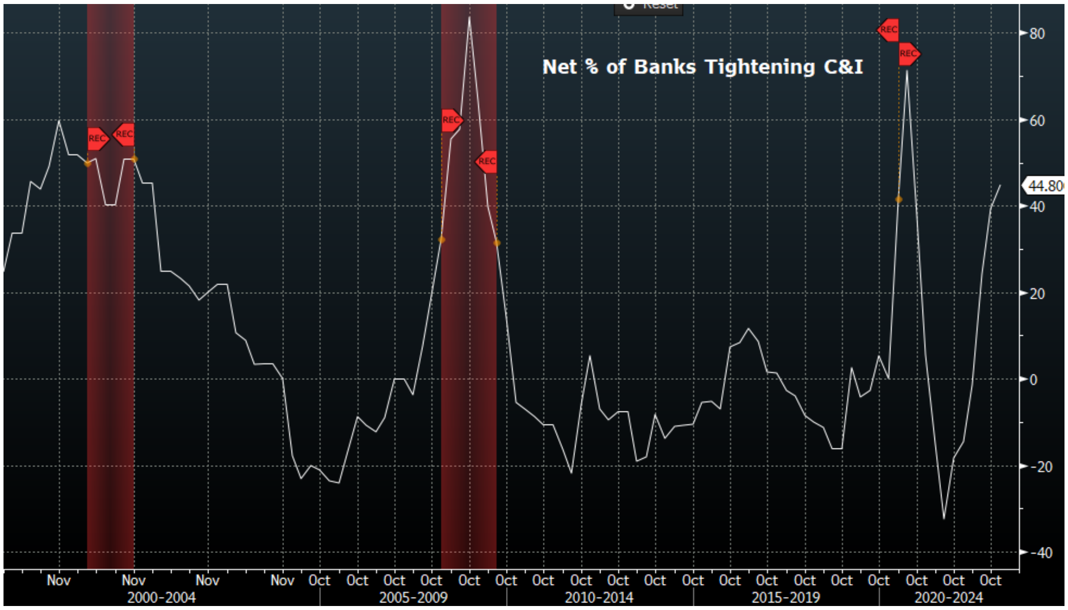
Current data suggests the economy and consumer are still solid. 4Q'22 GDP came in at 2.7% and the Atlanta Fed projection for 1Q'23 projects 2.3% growth. The state of the labor market is also positive, with a 3.4% unemployment rate and still plenty of job openings, according to the JOLTS survey. It's important to keep in mind, employment is a lagging indicator and usually the last to react.

While the consumer continues to spend, credit card balances are spiking. Even more troubling is the increasing debt service cost due to the floating rate nature of underlying credit card interest rates.

At the end of the day, the Fed is focused on tamping down economic activity to rein in inflation, so we aren't buying into the no landing scenario. Furthermore, there are several warning signs around the economic backdrop.

- **Leading indicators**- Currently at -5.9%. When the leading indicator has remained negative for more than two months (currently seven), it has preceded the last eight recessions.
- **Bank lending standards**- Over 40% of senior lenders have indicated they are tightening lending standards. Exceeding this level, has aligned with the last four of the last five recessions.
- **Inverted yield curve**- There have been ten instances of an inverted curve since 1960 and eight times we've seen a recession within 24 months of inversion
- **Forward EPS**-Since the beginning of February, we've started to see forward EPS for the S&P 500 decline. This is often an early indicator of a downturn.




Our view is that an economic downturn is likely later this year or early next. The debt ceiling debate is likely to be the most contentious in history and a risk off event could be the beginning of economic unraveling.

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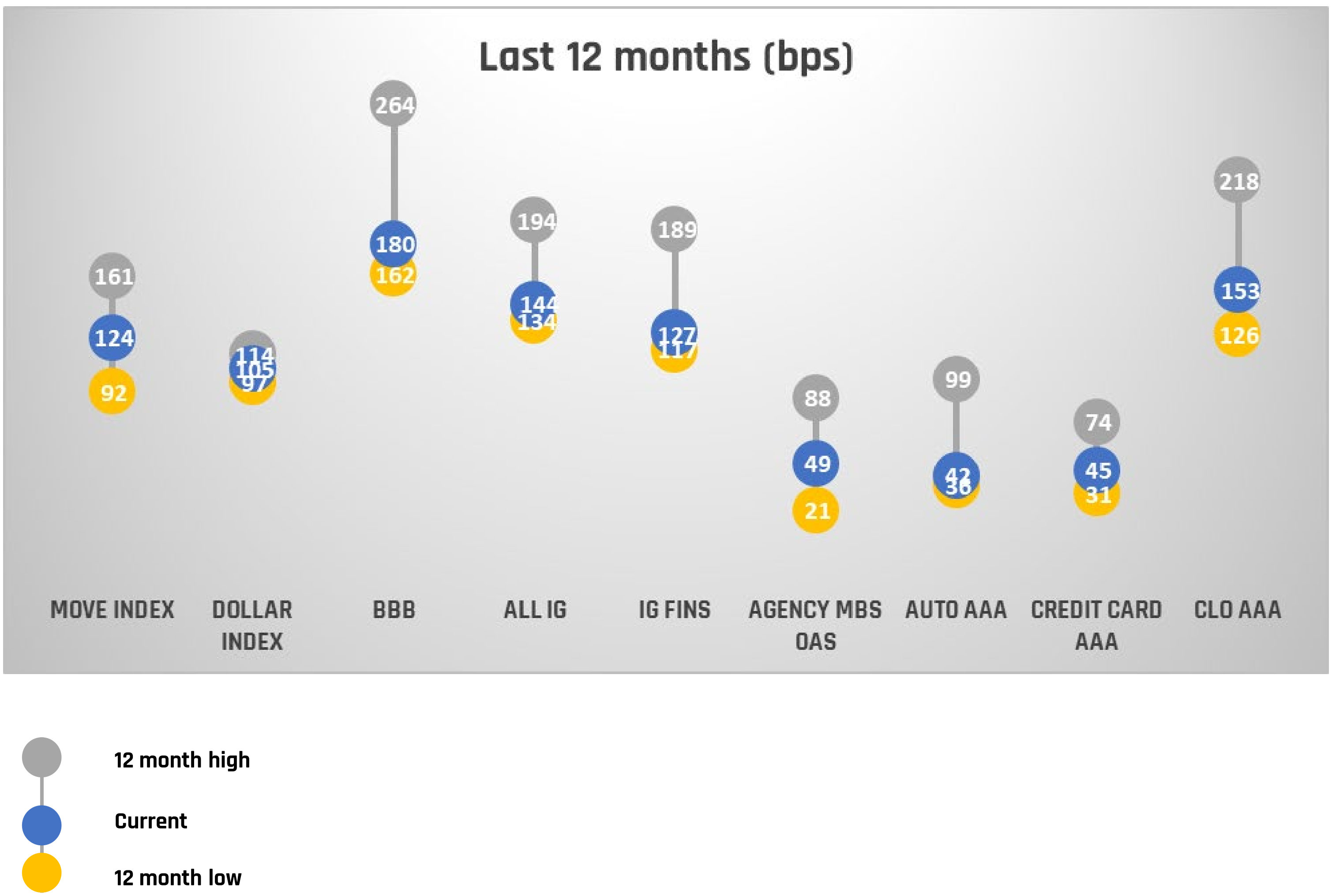
## Product Views

**Rates-** With the 2 year Treasury approaching 5% and the 10 year north of 4% we find duration attractive. The market is currently pricing a terminal rate of 5.50-5.75% range, so duration on the front end is reasonably priced. The 10 year will remain in check as long as markets believe Fed can keep inflation from running away

**Credit-** Credit spreads have seen decent tightening since Oct'22. They are fairly priced, remaining close to 10 year averages. Generally, corporations are in good shape and default risk is reasonably contained. We are focusing on up in quality sectors that offer more attractive yield in quite some time.

**Securitized –** Consumer subprime is starting to show signs of distress. While consumer ABS has withstood multiple downturns, we are focused on prime consumer debt. Additionally, we like prepay protected assets such as Agency CMBS.



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Investing in fixed income products is subject to certain risks, including interest rate, credit, inflation, call, prepayment, and reinvestment risk. Any fixed-income security sold or redeemed prior to maturity may be subject to substantial gain or loss.

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