Seth D. Rosenthal, CFA
John Gilmore

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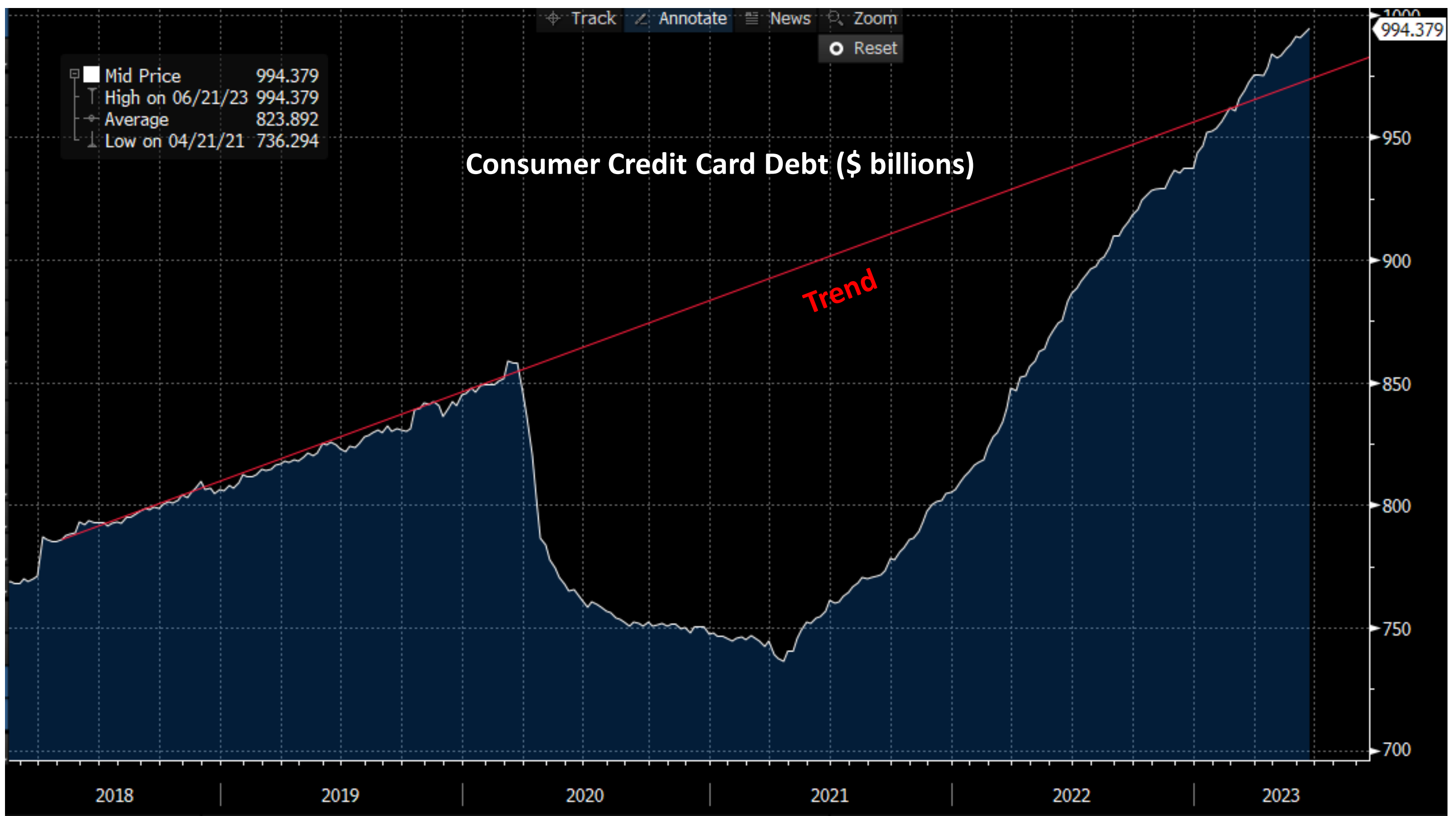
Admittedly, the economy has shown greater resilience than we initially anticipated. This resilience has led many investors to embrace the idea of a soft-landing scenario, and our call for a recession is no longer considered a crowded trade.

We expect to see a continued downward trend in year-over-year inflation through the June reading, mainly due to the lapping effect from the peak reached in June 2022. Following a pause in the previous meeting, both Fed speak and market expectations suggest that more action is required to reach the Fed's inflation target, with a potential rate hike expected in July.

The resilient consumer remains a focal point of attention. With rising equity prices, stable home prices, low unemployment, and declining inflation, consumer sentiment remains positive. However, it's worth noting that excess savings are projected to be depleted in early Q4'23, coinciding with the resumption of student loan payments. Furthermore, consumer credit card debt is rising at a rapid pace, surpassing long-term trends. There is a growing concern that the consumer's positive momentum may not be sustainable indefinitely.

Although the largest banks have passed the Fed stress test, we anticipate tighter capital and liquidity requirements considering the large bank failures experienced last March. This could further dampen loan demand and have a cascading effect on the economy.

Overall, we maintain a strong conviction that leading indicators, credit tightening, and the lagging impact of monetary policy will eventually exert a negative influence on the economy.



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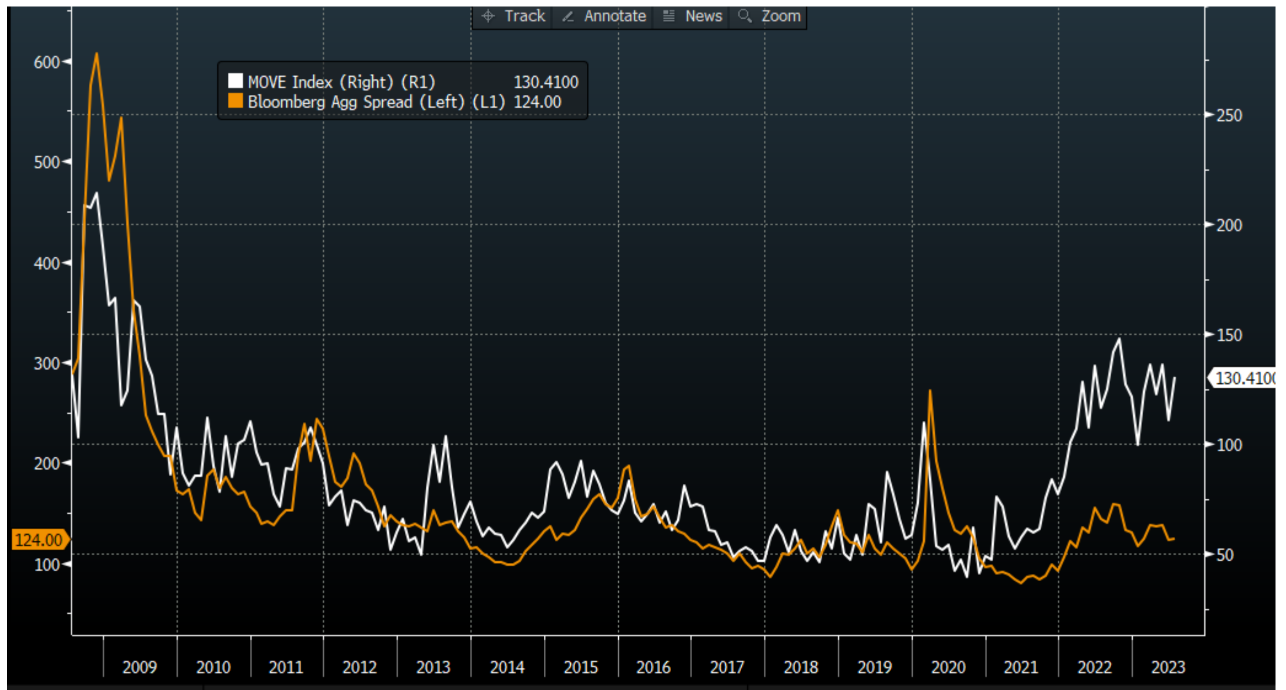
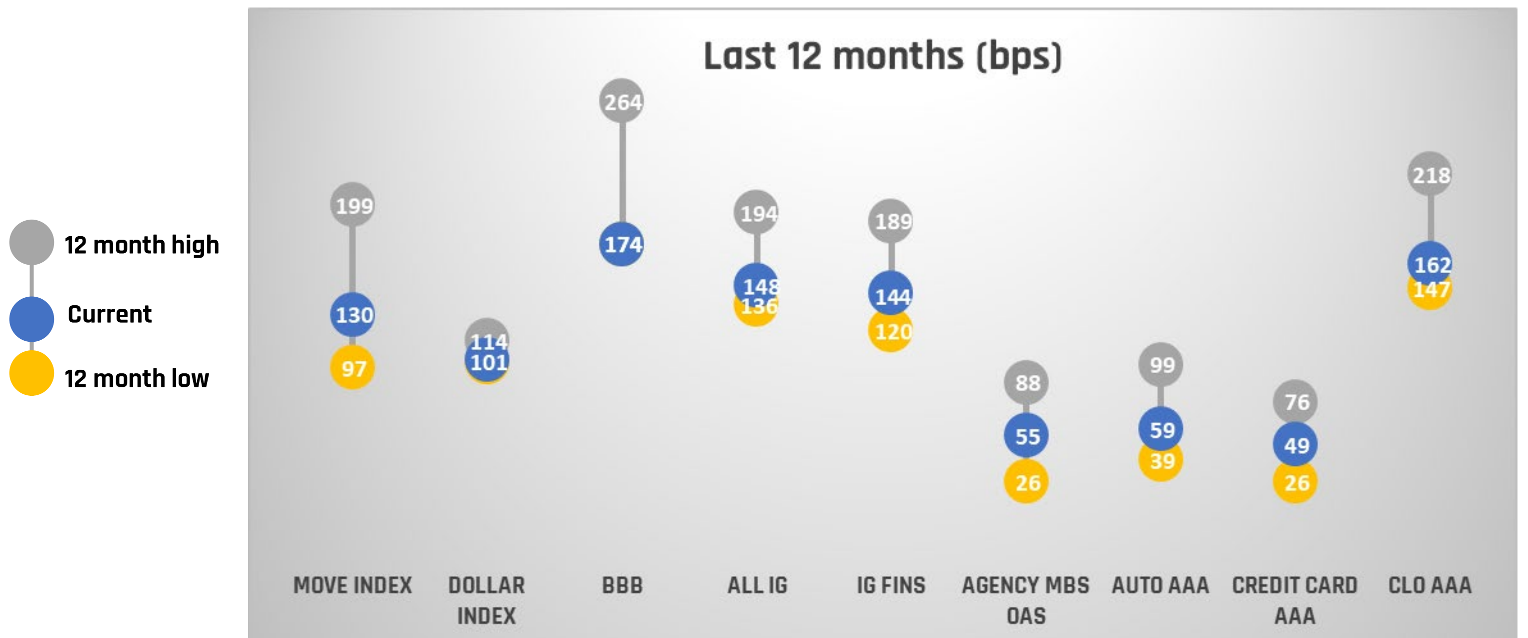
Product Views

Rates- Front-end rates have experienced an upward movement, approaching cycle highs, driven by expectations of further Fed tightening and a longer period of higher rates. Given the current environment, we believe it is a favorable time to increase duration exposure in this segment.

Spread Products- Risk assets have displayed strong performance, presenting an opportunity to strategically reduce exposure to cuspy bonds in corporate and CMBS sectors, while maintaining the up in quality bias. As we have previously highlighted, the MOVE index has shown a significant correlation with broader spreads. Therefore, we remain attentive to the dispersion observed over the past 2.5 years.





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Investments in bonds and other debt securities will change in value based on changes in interest rates. If rates rise, the value of these investments generally drops. Some investors may be subject to the Federal Alternative Minimum Tax and to certain state and local taxes.

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