ACADEMY ASSET MANAGEMENT

Market Update

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The US economy remains resilient, with a strong labor market and robust consumer spending driving growth. However, potential challenges loom, particularly concerning inflation and its impact on household finances.

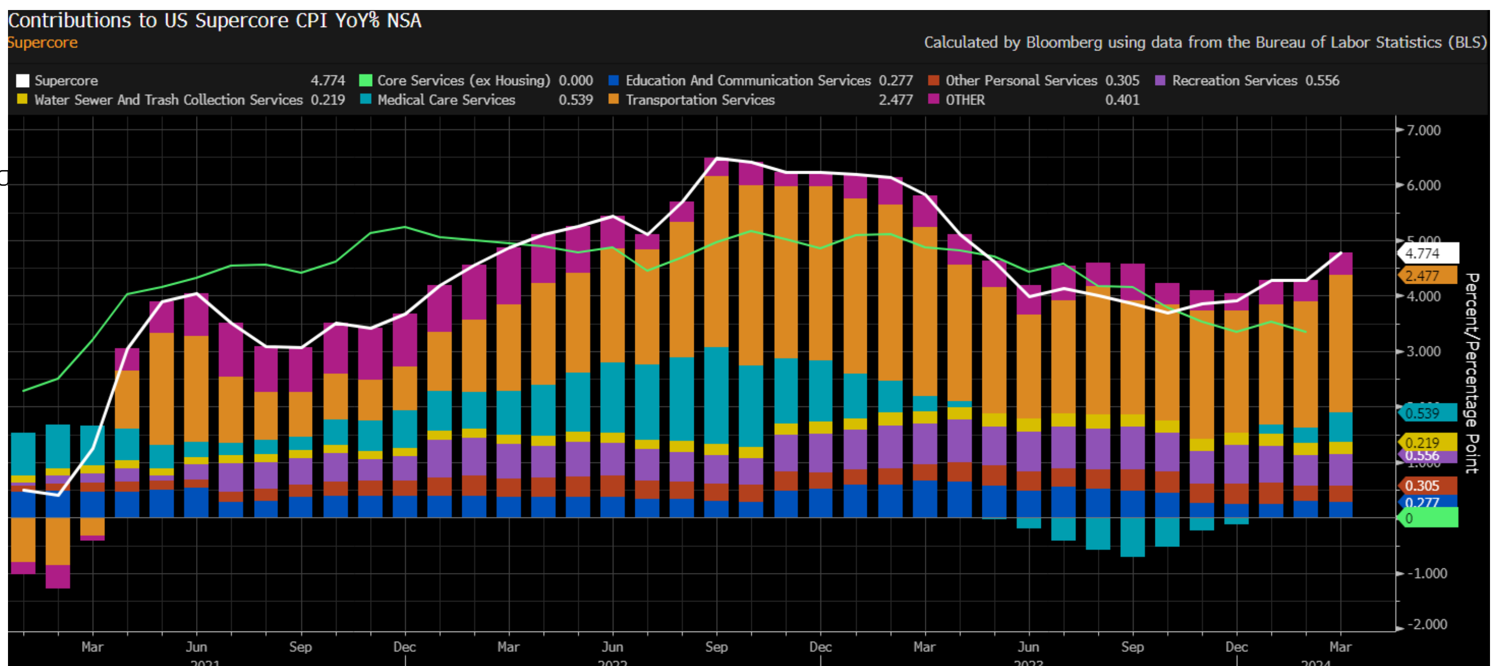
Consumer confidence dropped in April due to high gasoline and food prices, alongside job availability and future income concerns. Near-term changes in confidence explain little of the fluctuations in real consumption, with the labor market, disposable income, and household net worth playing larger roles.

April's job report revealed a deceleration in job growth, alleviating concerns of inflationary pressures. Average hourly earnings rose less than expected, while the employment cost index advanced more than anticipated, hinting at residual seasonality. A falling quits rate suggests moderating wage growth ahead. Initial jobless claims remain low, albeit influenced by stricter eligibility and reduced benefit generosity.

Risks persist for both inflation and growth forecasts. High prices persist, straining household finances, and many businesses are reporting emerging financial stress indicators among customers. While inflation may ease, core goods' price levels may pose a persistent challenge for lower-income households, reflected in altered spending patterns and increased credit delinquencies for credit cards and auto loans.

Chair Powell's derived inflation measure, Supercore, which excludes food, energy, and housing, has displayed an upward trend, reaching 4.77% in March. It's noteworthy that he has not mentioned Supercore in about a year, as it does not align with the easing narrative. Overall, we view the May FOMC meeting as dovish, nearly equivalent to easing, given his remarks during the press conference and the reduction of the Quantitative Tightening cap from $95 billion to $60 billion, with the cap remaining unchanged for mortgage-backed securities.

In conclusion, while the US economy remains resilient, challenges related to inflation and household finances persist. The Fed's dovish policy stance and sustainable job growth provide optimism, but ongoing monitoring is necessary to ensure economic stability.



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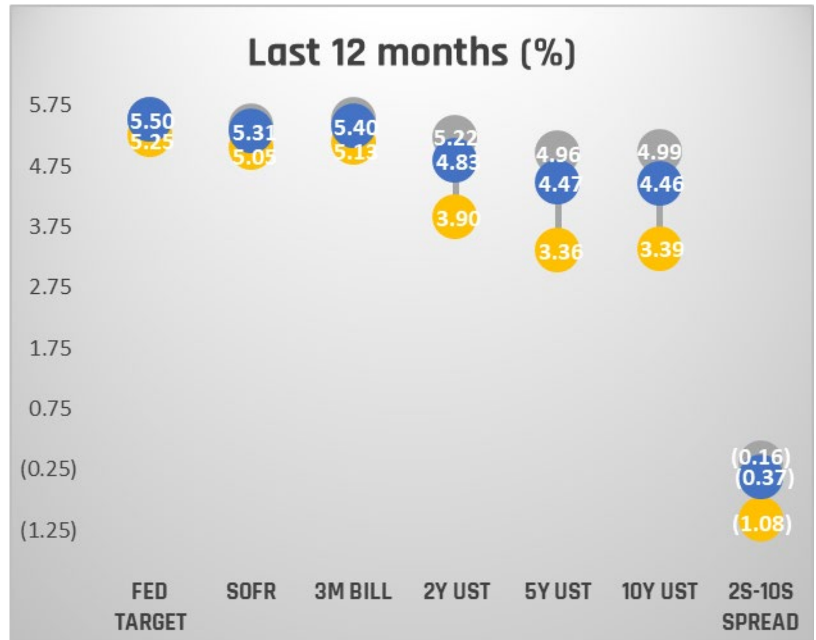
Product Views

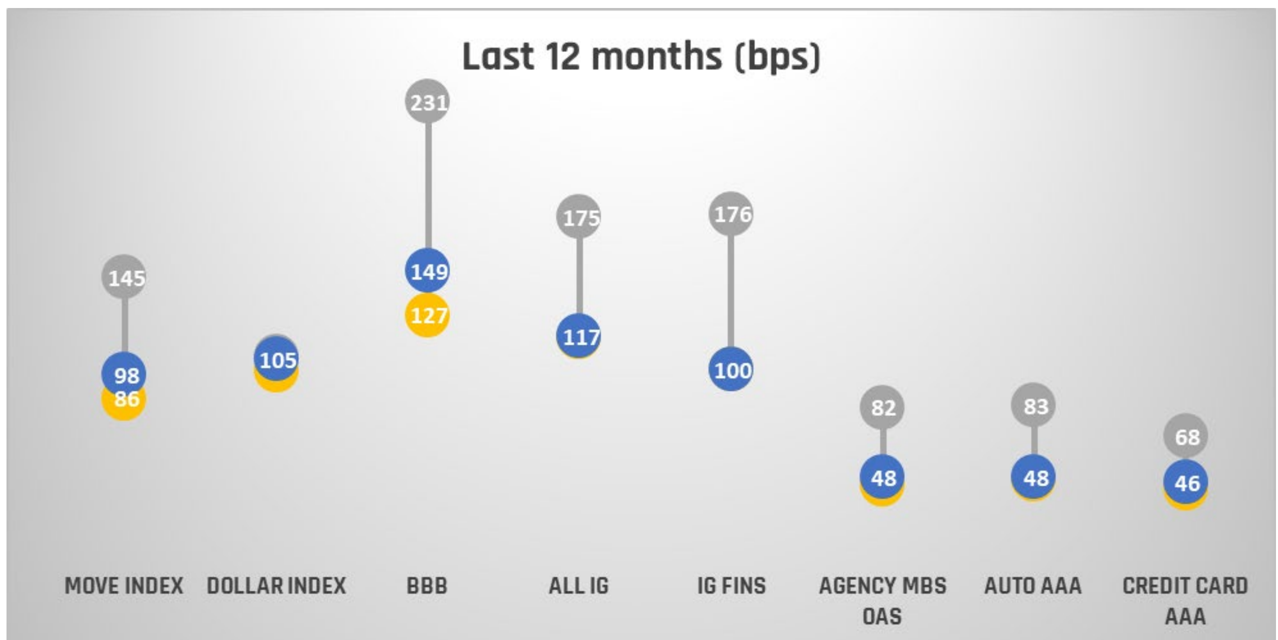
Rates – Rates have experienced significant volatility over the last month, with the 2-year Treasury closing at a high of 5.04 on April 30 and a low of 4.65 earlier in the month, while the 10-year traded in a range from 4.31 to 4.70. The market initially priced in fewer Fed cuts as inflation seemed likely to persist, but this sentiment reversed after the May 1 FOMC meeting. As we highlighted last month, during these periods of heightened volatility, we recommend that investors consider implementing a backup strategy in rates to selectively add duration. Overall, our stance remains neutral. With the prospect of Fed easing looming closer, investors may find it advantageous to proactively extend duration in anticipation of lower market rates.

Credit – Corporate credit spreads have remained tight overall, tightening by 4 basis points over the month. This reflects continued market confidence in the creditworthiness of borrowers and a positive economic outlook. However, we maintain caution as we see minimal upside potential in the form of significantly tighter spreads.

Securitized - We continue to favor securitized assets, particularly consumer ABS, equipment, and Agency MBS, which have not benefited from the broader tightening environment observed in corporates and other risk assets. Spreads in these asset classes remain in the top quartile when considering historical data over 5 and 10 years. Credit fundamentals in ABS remain robust overall, and Agency Mortgage-Backed Securities (MBS) are positioned to serve as a buffer in the event of an economic downturn.



12 month high
Current
12 month low



The following risks could cause the Strategy's portfolio to lose money or perform more poorly than other investments.

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.

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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