ACADEMY ASSET MANAGEMENT

# Market Update

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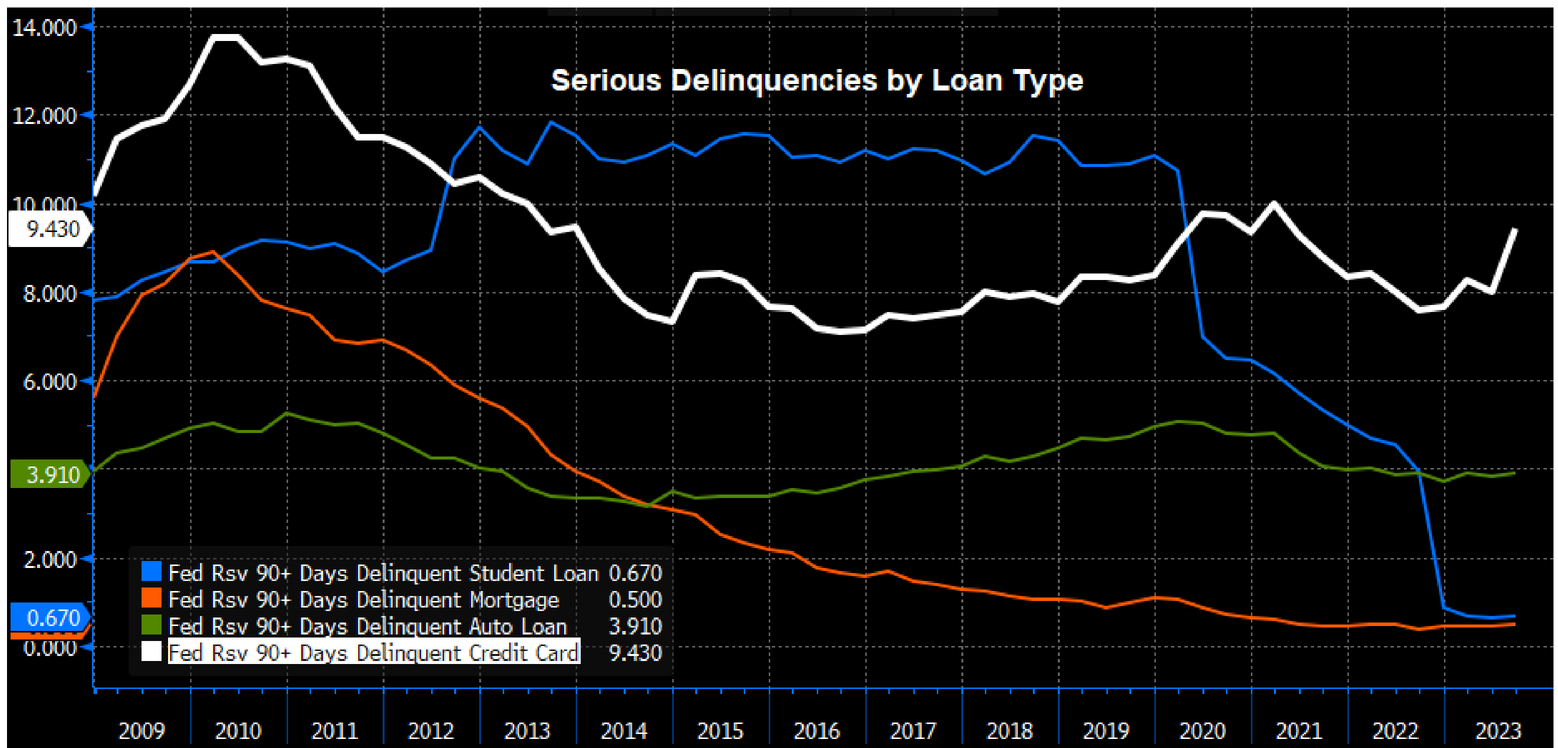
## November 2023

In October, solid economic data and apprehensions regarding additional Treasury supply contributed to pushing rates higher. However, we saw a reversal in early November as economic data, particularly the employment situation, portrayed a less optimistic outlook.

During the November 1 meeting, the Federal Open Market Committee (FOMC) maintained steady rates. Chair Powell's speech on Thursday reemphasized the Federal Reserve's dedication to reducing inflation to 2%. There was uncertainty about whether they had achieved a sufficiently restrictive stance and their readiness to further tighten policy if necessary. Powell also acknowledged the long road ahead in restoring price stability and the potential necessity of an economic slowdown to achieve more "disinflation." While Fed Funds Futures have mostly ruled out near-term hikes, we still maintain the viewpoint that the Fed might tighten one last time.

Inflation is starting to affect the lower end of the income and credit profile distribution. There's been an uptick in serious credit card delinquencies (90+ days) through September 30, reaching levels not seen since the COVID period spike. Moreover, credit card outstanding balances continue to set records. Additionally, 401(k) hardship withdrawals have reached record highs, as reported by Fidelity, Bank of America, and Vanguard. Lastly, we're keeping an eye on major retailers' earnings next week for signs of a consumer base reaching its limits.

Geopolitical risks remain elevated. Although it's not our base case, we are concerned that neither risk assets nor risk-free assets are factoring in any potential for escalation. This further supports our inclination toward an up in quality bias.



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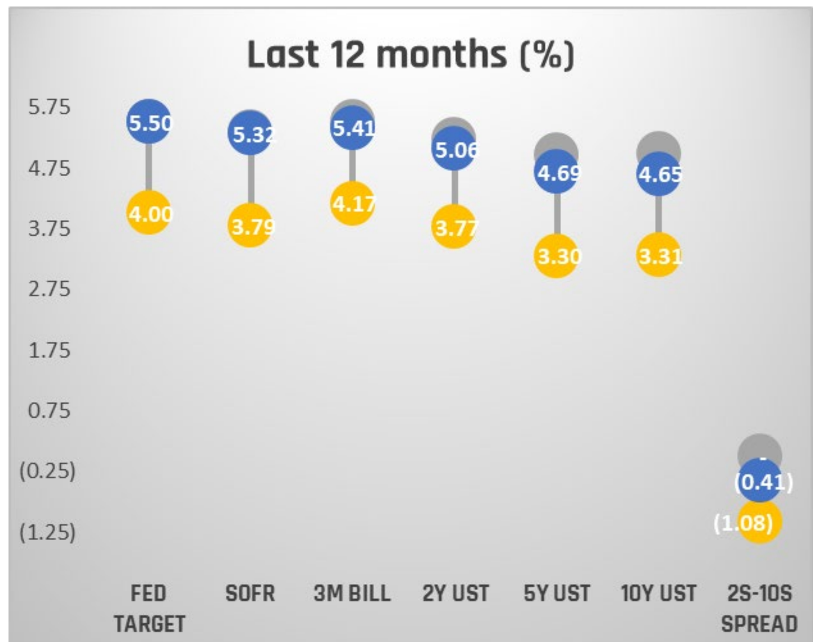
## Product Views

**Rates-** Our stance remains firm that we're approaching the tail end of the cycle. It's crucial to remember that historically when the FOMC initiates rate cuts, they tend to occur swiftly and thus impact cash yields, particularly money markets. Despite a better yield today in cash, history suggests that core and short-duration assets will likely outperform cash at the end of Fed tightening policy. As a result, our focus leans towards extending duration within the front and intermediate segments of the curve. Regarding longer duration, while absolute levels seem appealing, especially when considering real yields in comparison to historical averages. We maintain a neutral stance on duration targets due to our caution regarding imminent supply concerns.

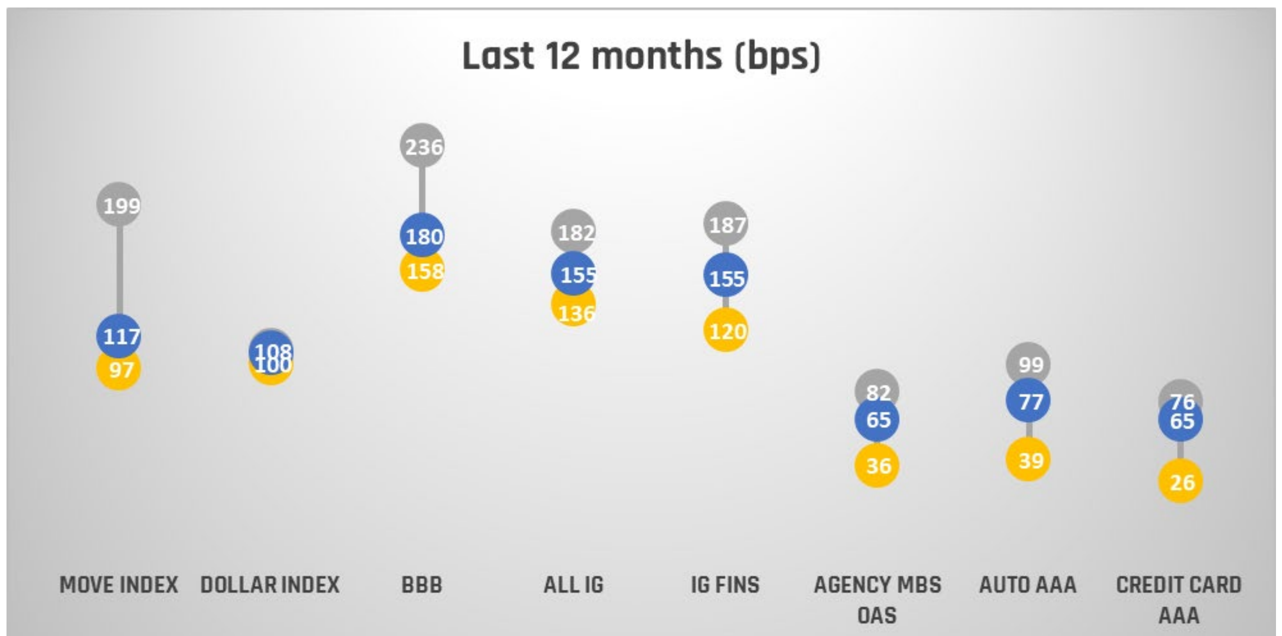
**Credit-** Over the past 30 days, there has been a substantial widening of CCC-rated spreads due to increased defaults. We are vigilantly monitoring for signs of potential contagion in higher-rated corporate sectors. Given the strength of corporate balance sheets, default risk in investment grade remains minimal.




**Securitized-** Mortgage-Backed Securities (MBS) exhibited strong performance in the latter part of October, primarily attributed to the decline in Treasury yields. We still perceive considerable value in MBS, especially considering current spreads and their low correlation to risk assets.

Despite the uptick in delinquencies, we view Credit Card Asset-Backed Securities (ABS) spreads as moderately attractive due to the structural protections embedded within these deals.

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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