

PNC Capital Advisors Monthly Market Monitor

MACRO

Following the January 31, 2024 Federal Open Market Committee (FOMC) meeting, Federal Reserve (Fed) Chair Jerome Powell indicated during his press conference that the Committee thought it appropriate to begin cutting rates in 2024, but that a cut by March, as market pricing had implied leading up to the meeting, “is probably not the most likely case.”¹

On the inflation front, the core personal consumption expenditures price index increased 0.2% in January, bringing year-over-year growth to 2.9%, the lowest yearly reading since May 2021.

The surprisingly strong January employment report reinforced our view that market expectations for policy easing had become overdone in recent weeks.

CREDIT

New issue volume was robust to start the year. Nearly \$190 billion of investment grade debt was priced in primary markets during the month, setting a new January record. February new issuance is expected to reach approximately \$150 billion.

Despite the heavy supply in new issuance, investor demand has been quite strong. Deals have been well over-subscribed, with many deals even pricing at negative concessions to secondary spreads.

Less attractive valuations in both primary and secondary markets continue to support our defensive posture as we await more attractive entry points.

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New issue supply in asset-backed securities markets was similarly robust, setting monthly records with \$37.2 billion priced.

ABS deals were well received, especially in 2- and 3-year tranches as investor demand led to well over-subscribed levels.

After very strong performance during the prior two months, the mortgage-backed securities sector lagged, symptomatic of the uncertainty leading up to the January FOMC meeting.

1. <https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20240131.pdf>

CHART OF THE MONTH Implied December 2024 Fed Funds Rate



➤ Following the January FOMC meeting and the blockbuster employment report, markets dialed back expectations for a March rate cut, to roughly one-in-four odds.

➤ Significant rate cuts continue to be priced in for calendar year 2024. Approximately five cuts are currently implied, which far exceeds the Fed’s most recent projection for three cuts.

As of 02/02/2024. Source: Bloomberg L.P.

MARKET DATA

Yields	YTM %	MTD Change	QTD Change	YTD Change
3-Mo UST	5.37	0.02	0.02	0.02
2-Yr UST	4.21	-0.04	-0.04	-0.04
5-Yr UST	3.84	-0.01	-0.01	-0.01
10-Yr UST	3.91	0.03	0.03	0.03
30-Yr UST	4.17	0.14	0.14	0.14
Risk Premia	OAS %	MTD Change	QTD Change	YTD Change
Investment Grade Credit	0.90	-0.03	-0.03	-0.03
Asset-Backed Securities	0.62	-0.07	-0.07	-0.07
High Yield	3.43	0.21	0.21	0.21

As of 01/31/2024. Source: Bloomberg L.P.

[BLOOMBERG SECTOR/INDEX PERFORMANCE (USD)]

	Duration (yrs.)	Percent			
		MTD Excess Return	YTD Excess Return	MTD Total Return	YTD Total Return
Sector					
Investment Grade Credit	6.80	0.40	0.40	-0.18	-0.18
Mortgage-Backed Securities	6.07	-0.18	-0.18	-0.46	-0.46
Asset-Backed Securities	2.63	0.25	0.25	0.47	0.47
High Yield	3.13	-0.22	-0.22	0.00	0.00
Index					
1-3-Yr Government/Credit	1.75	0.02	0.02	0.39	0.39
Intermediate Government/ Credit	3.70	0.03	0.03	0.21	0.21
U.S. Aggregate	6.19	0.08	0.08	-0.27	-0.27

As of 01/31/2024. Source: Bloomberg L.P.

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The **Bloomberg US Aggregate Bond Index** is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and nonagency).

The **Bloomberg US Aggregate Corporate Index** represents the total return measure of the corporates portion of the Barclays U.S. Aggregate Index.

The **Bloomberg US Credit Index** measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate and government related bond markets. It is composed of the US Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities.

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