2024 Mid-Year Market Outlook: What Lies Ahead

June 22

Exec Summary

The U.S. economy continues to grind, and macro-level data suggests that moderating growth ahead will not cause a near-term recession. When setting the current environment at a level compared to our expectations at the start of the year, investors witnessed more mid-cycle dynamics as risks to the downside lessened and valuations expanded. With the macro-economic environment seemingly in a constructive place, we're reminded that complacency is not a viable investment strategy. In our mid-year update, we detail the opportunities and risks ahead.

In summary, from a top-down perspective, the U.S. economy remained in expansionary mode during the first six months of the year, and leading indicators point to continued strength going forward. Inflation, while still elevated in areas like commodities and wages, remains at levels that do not appear to put the economy at risk. We continue to view a soft-landing scenario as most likely in the near term.

Equity-market valuations remain above historical averages, which we view with caution knowing that earnings growth will likely need to meet or exceed expectations for gains to materialize in the back half of the year. While a handful of companies tied to artificial intelligence continue to dominate investor mindshare and lead the indexes, we know from history that technology trends play out in stages. Early winners are often replaced or rendered less relevant as innovation unfolds. The current risk that a select few companies don't continue to hit expectations is offset by the potentially powerful impact down the road as the technology finds a home in applications that enhance profitability.

Fixed-income investors took their cues from equity results and the Fed's decision to pause and watch the impact of its rate-hiking campaign. While bonds struggled early in the year, the outlook looks more promising. Yields have increased and expectations for rate cuts later this year and in early 2025 remain. Lower rates could also benefit segments of the markets that have lagged, mainly some emerging markets, small-caps, value stocks, and areas of real estate and private equity. Across the globe, central banks in developed countries are addressing a similar battle between inflation and growth.

While monetary policy has been restrained, on the fiscal side, government stimulus continues as an election cycle moves into high gear. We highlighted the political dynamics in our forecast at the beginning of the year. We also continue to monitor geopolitical risks, where tensions remain elevated, creating another source of potential uncertainty. Realizing that risks constantly shift, we outline our thinking about diversifying strategies in select alternative asset classes, which have the potential ability to add value within portfolios.

Our asset allocation position reflects the risks and opportunities we see ahead and our belief that diversification and consistent execution drive longer-term investment results and capital preservation despite changing economic landscapes. We are neutral in our position in equities versus fixed income. In equities, we have a modest overweight to domestic companies with an expectation that market leadership will broaden over time. We are biased toward higher quality for income-generating assets and have extended duration on the conviction that peak yields are now behind us.

Macroeconomics: Navigating a Resilient Economy in 2024

Solid stock market gains in the first half of 2024 reflect better-than-expected trend performance for the U.S. and global economies. Consumer and business sentiment measures, such as the Conference Board Consumer Confidence Index and ISM Manufacturing and Services PMIs, have remained constructive. The ISM Manufacturing PMI notably logged its first expansionary reading in 17 months. Historically, the Index has demonstrated a strong positive relationship with S&P 500 earnings. Global equities are showing resilience amid varied macroeconomic conditions. In Europe, improving economic indicators and accommodative monetary policies bolstered market confidence. Meanwhile, emerging markets benefit from robust growth prospects and favorable demographic trends despite facing inflationary pressures and geopolitical uncertainties.

U.S. Labor Market

The U.S. labor market has demonstrated remarkable strength, adding around 250,000 monthly jobs in the year's first half. Robust job growth has been balanced by strong labor force growth driven by immigration, which has expanded labor supply faster than hiring. As a result, wage pressures have eased, and we expect the labor market to achieve equilibrium by year-end.

Productivity surged by 2.9 percent versus the same six-month period last year, leading to a normalization of Unit Labor Costs (up 1.7 percent year-over-year), a leading indicator of core inflation. The quit rate (the percentage of employees who voluntarily leave their jobs during a month as a proportion of total employment) has edged lower, signaling less churn in the labor market and pointing to a closing gap between labor demand and supply, which should lead to cooler wage growth. The labor market's stability, with unemployment firmly below 4 percent, supports a robust economic backdrop.

Inflation Trends and Wage Growth

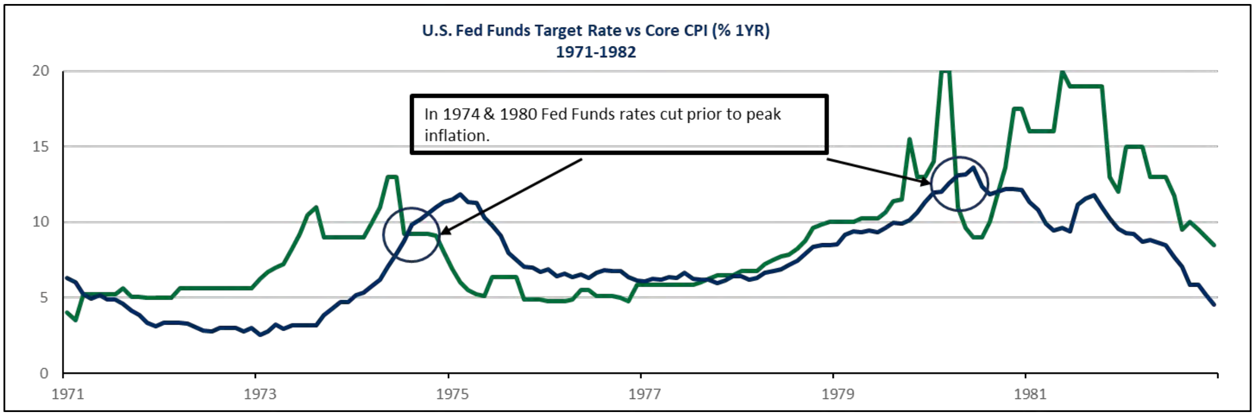
Inflation has been a focal point for policymakers, with the Fed closely monitoring rising cost pressure for U.S. households. However, the "Fed Math" equation of 4-2=2 indicates that 4 percent wage growth minus 2 percent productivity equals a 2 percent underlying inflation trend. With wage increases running at 4 percent, we believe the Fed should feel confident about reaching its 2 percent inflation target, thanks to strong productivity gains.

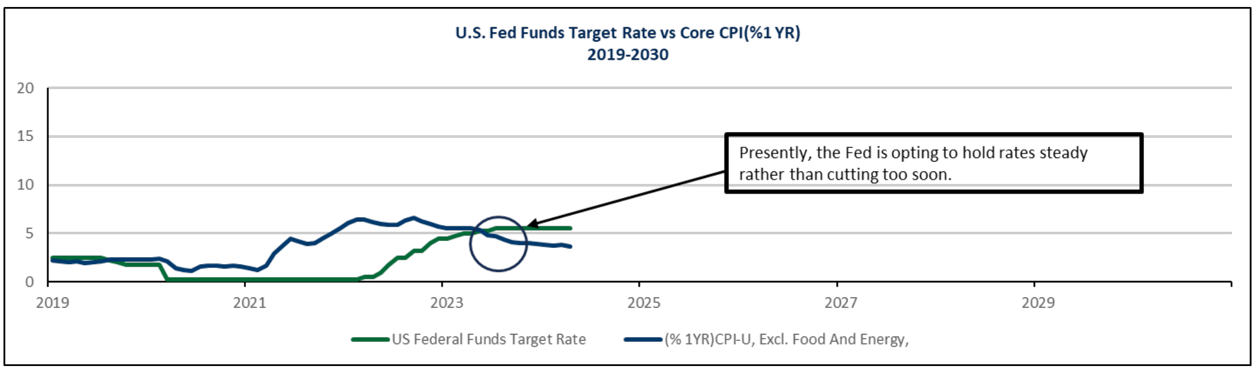
Consumer confidence has remained stable, consistent with sturdy consumer spending and a solid economy. Harmonized inflation (a method for comparing inflation to other advanced economies using the same consumer basket in all countries and excluding rent and other localized costs) suggests that inflation is already low enough to begin cutting rates. Harmonized core PCE (Personal Consumption Expenditures) has been below the Fed's 2 percent target for the past five months, and harmonized core CPI (Consumer Price Index) has been below the target for the past nine months. Despite concerns about the Fed's tightening bias, overall economic strength should help alleviate risks. A soft-landing scenario is our most likely scenario for 2024.

Monetary Policy

The Fed's current stance remains hawkish, focusing on preventing a second wave of inflation. However, historical comparisons to the 1970s are flawed, as the Fed cut rates before inflation peaked. Today, the Fed holds rates steady, allowing inflation to subside before considering rate cuts. This approach should help achieve the desired inflation target without triggering a second wave of price increases.

Chart 1: Not your Parents' Fed: Seeking to avoid the "start/stop" policy mistakes of the 1970s, today's Fed is focused on wringing inflation out of the system before it begins to loosen interest rates.





Sources: BMCM, FactSet; Data as of 5/31/2024

Global monetary policy also reflects cautious optimism. Lower interest-rate sensitivity, fiscal spending initiatives, and recent liquidity injections by policymakers support economic growth. These factors contribute to the economy's resilience amidst higher interest rates which can be attributed to these factors, indicating a favorable outlook for the remainder of the year.

<u>Housing Outlook</u>

The housing market remains a pillar of the U.S. economy. Household formation is 2.3 million units below its long-run trend, indicating pent-up demand. The share of homes without a mortgage is rising, at about 40 percent, and 30 percent of homes sell above their list price. Low inventory and increasing interest in moving to new locations suggest a healthy housing market. Employment in construction is rebounding, and the number of new foreclosures remains very low, further highlighting the market's stability.

Since the Fed's pivot in November 2023, the market cap of the S&P 500 has risen by about $9 trillion, which creates a windfall gain for the household sector. Fiscal policies, including the CHIPS Act, Inflation Reduction Act, and Infrastructure Act, continue to be significant tailwinds for the economy and market.

What Could Go Wrong?

Despite the optimistic outlook, several risks could derail economic stability. The upcoming U.S. election in November introduces political uncertainty that could impact financial markets and economic policies. Higher debt financing and potential difficulties in the new issuance markets for U.S. Treasuries could strain fiscal health. If the labor market shows signs of significant weakness, it could tip the scale towards Fed rate cuts, leading to market volatility.

Globally, central banks face a balancing act between controlling inflation and supporting growth. While some, like the European Central Bank, may push ahead with rate cuts, others remain cautious. China's recent stimulus measures aim to boost growth but may fall short due to structural issues. Japan's slow policy changes and the weak yen add to global economic pressures. Divergent central bank policies could create market uncertainties, affecting developed and emerging markets.

Navigating the Path Ahead

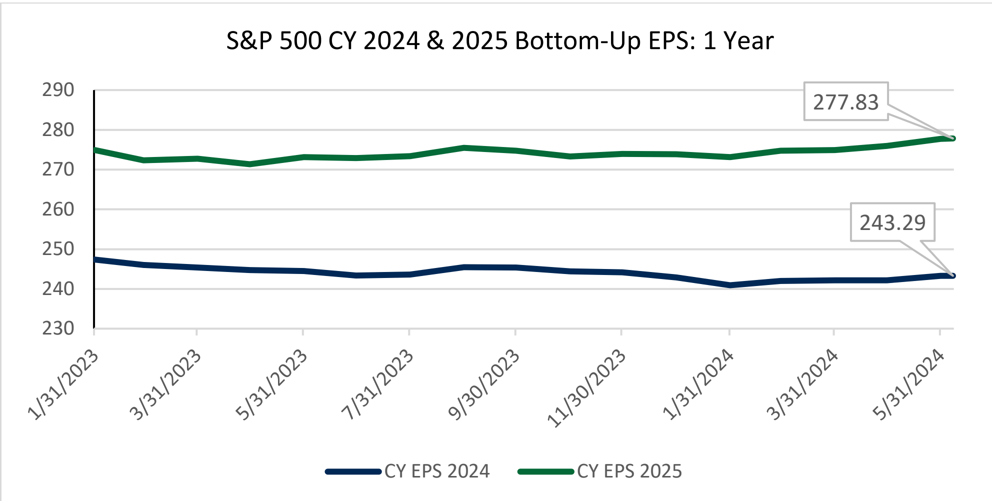
In summary, the U.S. economy is performing well, with a resilient labor market, easing inflation, and a stable housing sector. While the Fed maintains a cautious stance, the overall outlook remains optimistic. Sticky inflation is different from a feared second wave of price increases, and we are not surprised by the two-steps forward one step back progress in the data. As the year progresses, we expect the data to become clear that inflation is returning to the Fed's target. "Normal for longer" encapsulates our expected trajectory of interest rates as the Fed waits for the evidence to build. As we navigate the rest of 2024, these dynamics will provide valuable insights for our portfolios.

Equity Earnings: Some Heavy Lifting Ahead

As we reach the midpoint of 2024, the U.S. equity market continues to stand on solid ground, underpinned by broadening participation and robust earnings growth. Unlike 2023, when we witnessed highly concentrated equity market returns, sectors such as energy, utilities, financials, and industrials have posted strong returns in 2024. Last year, market returns were born from multiple expansion with a minor impact from earnings growth. That has shifted with S&P 500 earnings estimates for 2024 now 5 percent above the $243 per share expected when the year began.

Expectations for earnings growth going forward also remain robust. The year-over-year growth of 13.5 percent anticipated for the fourth quarter is followed by estimates for a similar increase in the calendar year 2025. That appears slightly aggressive to our team, with our base case for earnings growth in the 9 to 11 percent range. Not to take a backseat to monetary policy, fiscal policy in the form of multiple bills and acts (Inflation Reduction Act of 2022 & CHIPS Act of 2022) enacted over the last couple of years should continue to provide underlying capital support to various market areas.

Chart 2: The Equity Earnings Outlook in the U.S. Looks Bright!



Source: FactSet; Data as of 5/31/2024

Although still trailing U.S. returns, global markets continued to rise in the first half of 2024, with developed markets leading the way. Europe, seemingly on a similar monetary policy path as the U.S., surprised many investors. Despite geopolitical confrontations and energy constraints, the region has shown economic resilience over the last two years. The European region is less reliant on technology and tilts toward cyclical sectors. The sector composition and below-average valuations could attract greater investor attention should strength continue.

Buoyed by corporate reform for more efficient use of capital and profitability, Japan, a region we highlighted in our outlook as the year began, has also displayed strong results. The Nikkei 225 Index hit an all-time high early this year, eclipsing the bogey set in late 1989. Turning toward emerging markets, China has seen a resurgence in investor sentiment on hopes that a potential stimulus package will support the country's ailing property sector.

We closely monitor the path of the U.S. dollar, given its importance to U.S. multinationals and foreign equities. The U.S. Dollar Index has been range-bound since the beginning of 2023, but many forces at play. For example, U.S. exceptionalism (factors that make the domestic economy unique) and uncoordinated global central bank policies increase the risk of wider interest rate differentials, resulting in U.S. dollar strength and depressed relative international market returns.

We understand the high unpredictability of forecasting market returns for six months. That being the case, we believe conditions that promote a positive return environment remain present. Above-average GDP growth, broadening sector participation in earnings growth, a Federal Reserve pause, and suppressed credit spreads are all among these conditions. The current 21 times forward 12-month earnings on the S&P 500 stands at an approximate 30 percent premium to historical averages, creating a potential cap for equity returns. Earnings execution seems critical for market returns for the rest of this year.

As we progress through the year, the upcoming Presidential election will set the stage for an environment that could be influenced more by fiscal policy projections and banter than monetary policy. The more acute risks to our outlook are threefold: geopolitical tensions escalate, causing a sustained move higher in commodities that passes through to manufacturing costs; inflation remains stickier to the point that interest rate cuts are priced beyond the end of 2024;

and the lofty growth expectations centered on the Artificial Intelligence theme do not materialize, causing downward earnings revisions.

Equity Spotlight: AI's Winners Not Yet in Plain Sight

Today's artificial intelligence (AI) stock-market winners have been consolidated in a small, deep-pocketed group of cloud, digital advertising, and social media players – mainly names like the well-owned "Magnificent Seven." The companies and applications that will benefit as the technology matures and is monetized are much less visible today, especially if history is any guide.

Knowing billions of dollars are behind the backend of AI, our question to management teams has been: How do you chart a path to returns given the massive capital outlay required? The answers vary, but our takeaway is that the results generative AI spits out, whether language, numbers, chemicals, images, sounds, or even steering-wheel position, will not be free.

For the non-data-scientists reading this, each unit of generative AI content produced is a "token." And, like an eighties arcade game at the mall, the more advanced the game, the more a token will be worth. Companies with innovative AI assistants or software that drives an outsized productivity gain will likely demand a premium per token. And Nvidia - today's leader in graphics processing units (GPUs) that create tokens – won't be the only game in town.

History does not always repeat, but it often rhymes. Netscape's Navigator was the first user-friendly web browser three decades ago. Netscape shares went public in 1995, placing "dotcom" on the radar well before most Fortune 500 companies had online addresses. The following year, Bill Gates published "The Road Ahead," heralding the arrival of an information superhighway. Investors bid up shares of anything internet-related by the end of the decade. Shares of network equipment provider Cisco Systems soared over 30,000 percent in ten years, making it at one point the world's most valuable company.

Fast forward to late 2022, when OpenAI released ChatGPT, putting the power of AI in the hands of consumers. Overnight, companies rushed to buy AI-tailored processors —some costing $20,000 each—creating shortages and sending Nvidia's stock price to new highs.

If you don't own Nvidia shares, history and market experience suggest you haven't missed the AI opportunity. Many of the most successful companies that capitalized on the Internet started operating over a decade after the release of Netscape. Secular technology trends tend to play out in stages, which can be missed as early advances create hype. For example, wireless technology and smartphones enabled previously unthought-out use cases for the Internet. Uber and Airbnb are just in their teens. From a sobering perspective, many early Internet leaders — including Netscape — dissolved. Cisco's stock price fell roughly 90 percent from its peak in early 2000 to its trough in late 2002 as investors grew concerned with slumping profits and excess capacity.

Much of our time analyzing equities is devoted to the competitive landscape. Disruptive business models of the dotcom era encountered easy access to capital and few barriers to entry. Today's environment is different, given the laws of scaling, whereby AI model performance grows exponentially with processing power. The disadvantage is that training and scaling a single AI model can cost hundreds of millions of dollars, which is why there are likely few dominant AI startups.

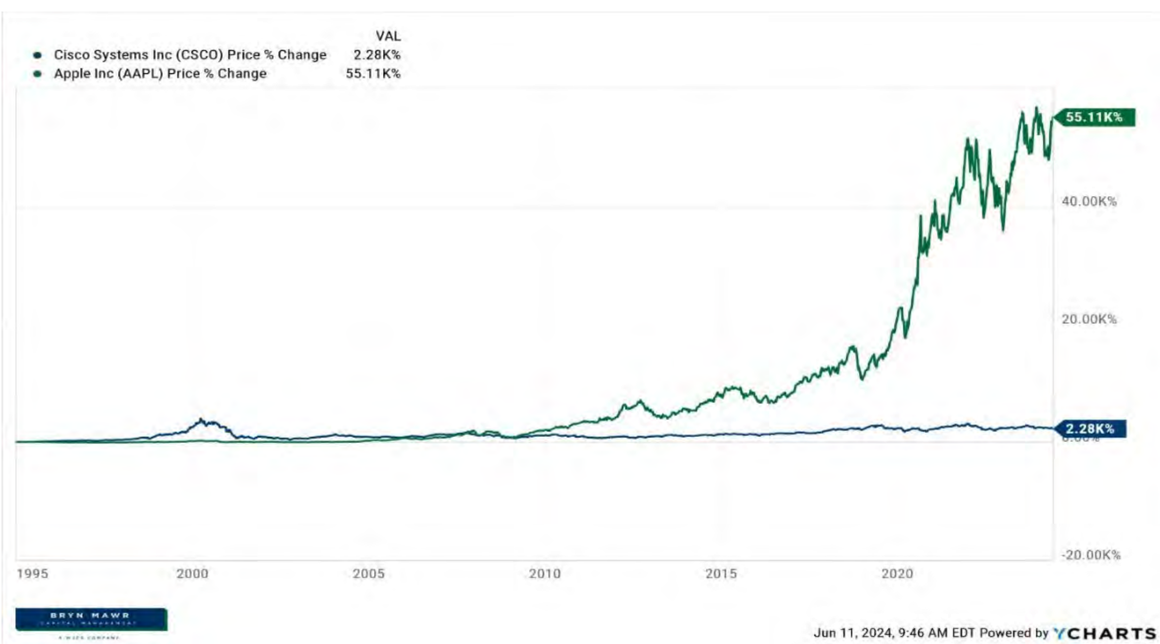
That said, there are companies outside these consumer-facing giants whose prospects aren't solely hitched to AI and where the new technology balances revenue streams, mitigating risk if AI fails to meet expectations. Power-generating utilities and sleepy industrial companies that sell electrical and cooling gear are participating in the AI buildout. Companies selling optical and networking equipment linking data centers regionally and connecting computing clusters also play an integral role. Again, using history as a guide, we'd expect companies to push the costs of AI computing closer to the end user, potentially boosting the prospects of makers of PCs, smartphones, and even broadband service providers.

The cost to compute and transport data should decline over time, which could create new revenue and profit opportunities. In customer call centers, AI models may eventually troubleshoot and resolve most queries, directing only complex cases to a live person. AI tools for end users, such as co-pilots, ought to improve labor productivity, helping to lower costs and expand margins for labor-intensive businesses.

AI will continue to pose threats and opportunities across the board, returning to our original question regarding which companies will create the most shareholder value. A manufacturing-based company might use AI robots to reduce defects and wasted materials while saving labor and long-term costs such as pension and healthcare obligations. A retailer could purchase AI-based tools to drive efficiencies in the supply chain, as well as improve demand forecasts via predictive capabilities. In healthcare, AI has the potential to accelerate the discovery of new pharmaceuticals and aid in treatment courses. At the same time, the technology is already commoditizing core capabilities, forcing businesses to shift strategies or phase out.

As the AI opportunity unfolds, we'd remind investors that at the height of the 1990s Internet craze, Apple Computer was an unloved stock with an uncertain future. Few realized the company would harness the power of the web to become the world's largest company years later. It is a stark reminder that a long-term outlook and thoughtful investing based on fundamental strengths is a winning long-term strategy as technology changes.

Chart 3 - Cisco (the darling of the "DotCom" era), is barely a blip compared to Apple which "slept" through the late '90s and early '00's!



Source: YCharts; Data as of 5/31/2024

Fixed Income: Higher for Longer – Is Time Running Out?

After multiple months of still elevated inflation reports in 2024, the Federal Open Market Committee (FOMC) members have clarified that a considerable period of benign inflationary data will be necessary to justify a rate cut. As a backstop, if the economy takes a turn for the worse, they also acknowledge an open door for a change in rates.

With about half the year behind us, an interest rate cut or two is still in the cards, but it would likely need to come in the final quarter of this year. Given the overall strength of the labor market and today's inflation levels, the Federal Reserve's (Fed's) hands are tied in the short term.

U.S. Treasury yields repriced higher in the first half of 2024 as investors dialed back expectations for lower short-term rates. Two- and 10-year U.S. Treasury yields have risen 70 and 65 basis points (0.70 and 0.65 percent), respectively, closing at 4.95 and 4.46 percent on May 24. Importantly, although higher, the U.S. Treasury curve is still below levels reached in October 2023.

We expect a volatile rate environment in the back half of the year as investors cling to every piece of inflation data available. Today's policy rates of 5.25 to 5.50 percent seem restrictive enough to weigh on inflation and economic growth, leading us to believe the Fed's next move will be a rate cut. If so, last October's Treasury curve may be the high for this rate hiking cycle. As this continues, we'd expect U.S. Treasury yields to trend lower, led by the short end of the yield curve. The U.S. Treasury curve will steepen as short-term yields adjust quicker to expected and actual changes in policy rates. Longer-term rates will also trend lower; however, investor concerns regarding U.S. government deficit spending and uncertainty around the future path of inflation should provide a floor.

Significant risks to our current thinking include geopolitical confrontations, U.S. economic developments, and inflation, all of which we monitor closely when assessing changes in bond yields. For example, higher inflation may keep the Fed committed to "higher for longer," while a sharp turn in economic data could have the opposite effect and trigger a series of rate cuts.

Looking beyond the government curve, corporate bond yields within both investment grade and high yield typically follow the direction of U.S. Treasuries. Although justified, corporate bond valuations appear stretched, given the robust U.S. economy and supportive fundamentals. Investor's appetite for risk has resulted in tight credit spreads, reflecting additional yield compensation above the U.S. Treasury curve. Although we are comfortable taking on credit risk and continue to like corporate exposure, we believe there is room for valuations to retrace. Our position is more defensive, leaning towards the higher-quality segments of the fixed-income market. Given credit spreads and our expectations for U.S. economic growth, there may be a better entry point from a valuation perspective to add additional exposure.

Within the bank loan space, the variable nature of coupons adds an extra layer of focus. Higher short-term rates have contributed to higher coupons for investors but increased financing costs for issuers. In our view, the latter will weigh on margins and credit fundamentals. While some exposure to the asset class is reasonable for diversification purposes, a degree of caution is warranted.

Overseas, emerging market debt has confronted several hurdles over the past few years, including global tightening monetary policy, slowing Chinese growth, and geopolitical tensions. Investors have maintained their exposure appetite with spreads, trading near their tightest levels over the past decade. Although valuations are elevated, we believe a continued shift by global central banks towards less restrictive monetary policy combined with positive global economic growth can support current spread levels.

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Valuations have retraced for tax-free municipal bonds after an influx of supply hit the market. On a tax equivalent basis, municipal bonds have been trading at their highest levels relative to U.S. Treasuries since last November. In aggregate, fundamentals remain healthy as municipality balance sheets continue to benefit from positive economic growth and post-COVID stimulus dollars. The tax-free municipal bond market offers attractive yields, most notably for investors in the highest marginal tax bracket.

In aggregate, we believe today's fixed-income environment provides compelling opportunities for yield across various sectors while considering current bond valuations. The entire U.S. Treasury curve is yielding well above 4.0 percent as a starting point. That's a lot of income to support returns relative to the prior decade and provide some cushion if credit and emerging market debt spreads widen. With this in mind, we believe adding duration within the context of a given client's risk tolerance can be appropriate given the level of income that the fixed-income asset class currently generates.

Chart 4 - The Power of the Coupon! For the first time in nearly a generation, bonds offer meaningful income.

Source: Bloomberg Finance L.P. Data as of 5/31/2024

Beyond Traditional Equity and Fixed Income Asset Classes

Diversifying Strategy Allocation

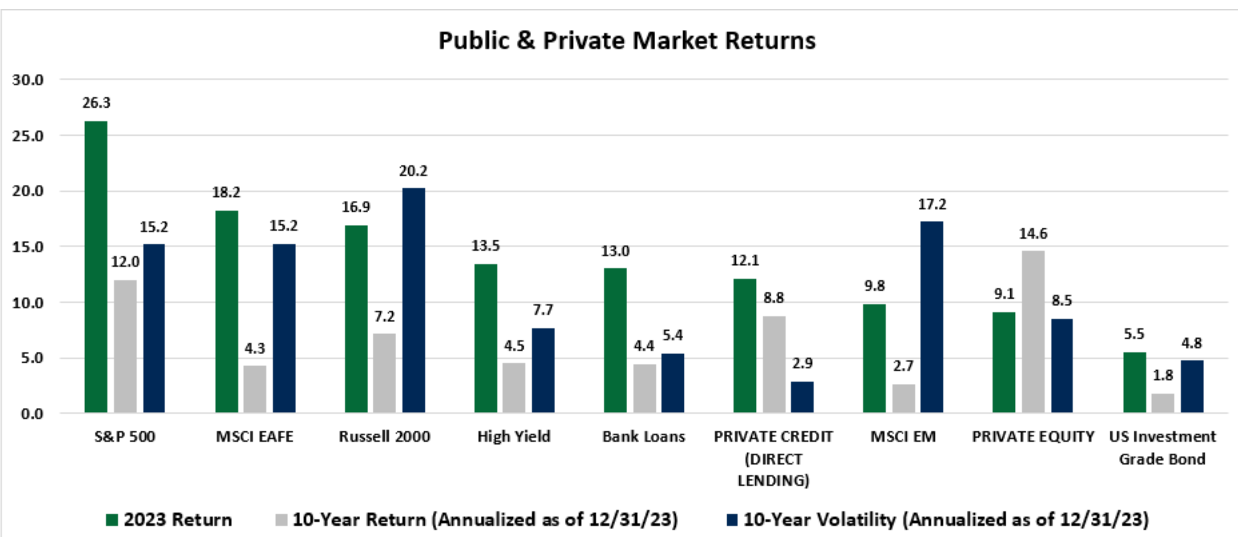
We acknowledge that not all investments within our equity allocation fit into a conventional nine-way style box (growth/value/core, large/mid/small), or focus on one geographic region. Outside of traditional equity and fixed income, there are select money managers that, in our opinion, have differentiated investment approaches that result in portfolios with low correlation to traditional equity and fixed income markets. These diversifying strategies aim to reduce portfolio volatility and beta while generating returns within reasonable proximity to the equity market, thus augmenting risk-adjusted performance.

Although we have a relatively upbeat outlook for the economy for the remainder of this year, there are known risks to economic growth noted earlier, as well as potential "black swan" events (i.e., COVID-19 pandemic in 2020), that could pose challenges for risk assets. As a result, we have an allocation to strategies that we believe help mitigate downside equity market volatility. One strategy, using advanced quantitative analytics, rotates between long and short volatility instruments, S&P 500 futures contracts, bonds, and cash. Another applies a fundamentally driven process to build a U.S.-focused portfolio of long- and short-term equity investments to exploit potential market pricing and valuation discrepancies. We believe these products complement each other and provide portfolio diversification benefits.

Overview of Private Markets

Private equity (P.E.) has been the top-performing asset class over the past couple of decades but, more recently, has delivered subdued results compared to public equities. Over the past 18 months, private equity gains paled compared to the soaring returns of the U.S. equity markets, spearheaded by a select group of mega-cap tech stocks known as the "Magnificent Seven." Another factor is the higher interest rate environment, which has increased the cost of borrowing and made deal-making more arduous for PE firms. Many large, publicly traded companies took full advantage of the low interest rate environment in 2020, terminating their debt maturities. P.E. firms did not have access to the same low-interest-rate corporate debt market. Not surprisingly, there has been a notable decline in U.S. PE deals over the past 18 months.

Chart 5 – Private Equity has lost its luster in 2024, trailing public market returns.



Sources: JP Morgan Asset Management and Morningstar, Inc. Data as of 12/31/23

Private equity firms have also been slowly exiting their investments, leading to extended holding periods. Nonetheless, the fundraising environment remains robust, particularly within the private wealth sector, with many P.E. funds boasting substantial reserves of uninvested capital. Valuation multiples in the private markets persist at levels notably beneath those seen in public markets. While the “higher for longer” interest-rate environment is challenging and creates some uncertainty within the PE space, we still believe there are longer-term, secular tailwinds.

Through the end of the third quarter of 2023, private credit fared better than PE and delivered returns reasonably in line with non-investment grade public bond markets (high-yield corporate and bank loans), the closest proxy. Fundraising activity within the private credit market has also dwindled, with debt-to-EBITDA multiples on sizable leveraged buyouts plummeting, mandating larger equity injections. For the most part, private credit managers have been able to navigate the rising interest-rate environment despite the warnings about rising defaults following the 2023 regional banking crisis.

Digital Assets Catch a Bid

2022 was a tumultuous year for the cryptocurrency market, given the failure of multiple stablecoins and the bankruptcy of prominent crypto exchange FTX. These events, combined with higher levels of volatility in general across global markets, led to a significant decline in the price of Bitcoin (75 percent peak to trough). Two years later, investor enthusiasm around cryptocurrencies has returned, evidenced by the more than 300 percent rise in Bitcoin's price over the past 18 months.

The SEC approved eleven new spots for Bitcoin exchange-traded funds (ETFs) to make cryptocurrency more accessible to retail investors. In fact, Fidelity and Blackrock have collectively raised over $30 billion of assets into their Bitcoin ETFs since trading commenced this January. In late May, the SEC approved applications for spot Ethereum ETFs, another indication of the growing interest in the crypto asset space.

We are intrigued by the recent growth of Bitcoin ETFs and the various other options to implement crypto exposure, such as Ethereum and crypto equity (i.e., firms in the ecosystem). We will continue to monitor developments in the space and conduct additional research to see if an allocation is warranted.

Concluding Thoughts

The present moment provides an optimal opportunity to conduct thorough research on additional diversifying strategies and private equity/private credit managers and funds, ensuring preparedness to deploy capital when the opportunity arises. Investments in select alternative asset classes have proven to improve absolute and risk-adjusted returns over the long term.

Asset Allocation Summary

Positioning	Rationale
Equities vs. Fixed Income	
Neutral	Interest rates have likely peaked and could head lower over the balance of the year. This is a supportive condition for both equities (less drag on earnings) and bonds (lower yields = higher prices).
Global Equities	
Core U.S. Stocks	
Modest Overweight	The U.S. equity market continues to look best positioned for growth. With extended outperformance by Mega-Cap stocks, the best opportunities may be down the cap spectrum in Mid- and Small-Cap names.
Non-U.S. Stocks	
Neutral	Among Developed markets, Japan appears to be finally on a firmer footing. However, the Eurozone may be entering a recession. Emerging markets will benefit from a soft landing in the U.S. A challenge for non-U.S. investors is the strong dollar, which should remain high until rates start coming down.
Unconstrained	
Modest Underweight	We fund the overweight to Core U.S. Stocks by reducing exposure here. This allocation is least correlated to the broad markets, and with a generally upbeat assessment of the U.S. market, the diversification provided here is not warranted.
Fixed Income	
Duration	
Extend to Benchmark	Our view is rates have peaked in the U.S., so extending duration locks in higher yields and could lead to appreciation if rates decline.
Yield Curve	
“Barbell” Posture	While we look to lock in a longer rate, the inverted curve means high coupons in the short maturities over an excellent source of return as well as flexibility.
Credit Quality	
Overweight Higher Quality	Below investment grade credits have enjoyed a nice run; current yield levels mean you don’t have to reach for yield.

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