

# A Tug-of-War Economic Picture

## Notes from the Trading Desk - Q3 2023

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We have seen a persistent theme of contradicting economic data, which essentially reveals inflation is slowing, but still much higher than it should be. Although we have seen some progress throughout this rate hiking cycle, we see a few concerning factors, including higher oil prices, the United Auto Workers strike in the U.S., and dwindling household savings and consumer spending. In September, both the Bank of Canada and the U.S. Fed paused rate hikes, maintaining the Bank Rate at 5.0% and 5.5% (target), respectively. The market has settled on the expectation that rates will be “higher for longer,” but we think even central bankers do not know exactly how long, or what the implications are amidst this tug-of-war between growth and inflation. In light of this, we expect to see continued uncertainty in global bond markets in the medium-term.

Positioning-wise, we continue to focus on high-quality U.S. and Canadian issuers. Earlier in the quarter, we added Investment Grade (IG) risk to our long-only and long-short mandates and then adjusted during the second half of September as supply slowed. An excellent example of this is Brothers Discover (WBD), an IG media issuer who experienced short-term selloffs earlier in the quarter, but rallied by September, becoming one of our top contributors across many of our strategies.

High Yield bond issuance was the heaviest it has been since November 2021, and with careful credit selection, we believe there are attractive opportunities in the BB-BBB space – particularly for our multi-strategy mandate. Airlines were an interesting theme for us in a post-lockdown world as air-travel recovers, and we identified an opportunity in BB-rated American Airlines debt securities, which after several rating upgrades, became a top contributor to RP Select Opportunities’ year-to-date performance.

Overall, fixed income all-in yield valuations look attractive compared to equity valuations, and current real yields represent an attractive relative-value opportunity as we approach the end of the central bank tightening cycle.

For more credit market themes, check out our [\*\*Credit Market Themes in 5 Charts\*\*](#) article for this quarter.

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