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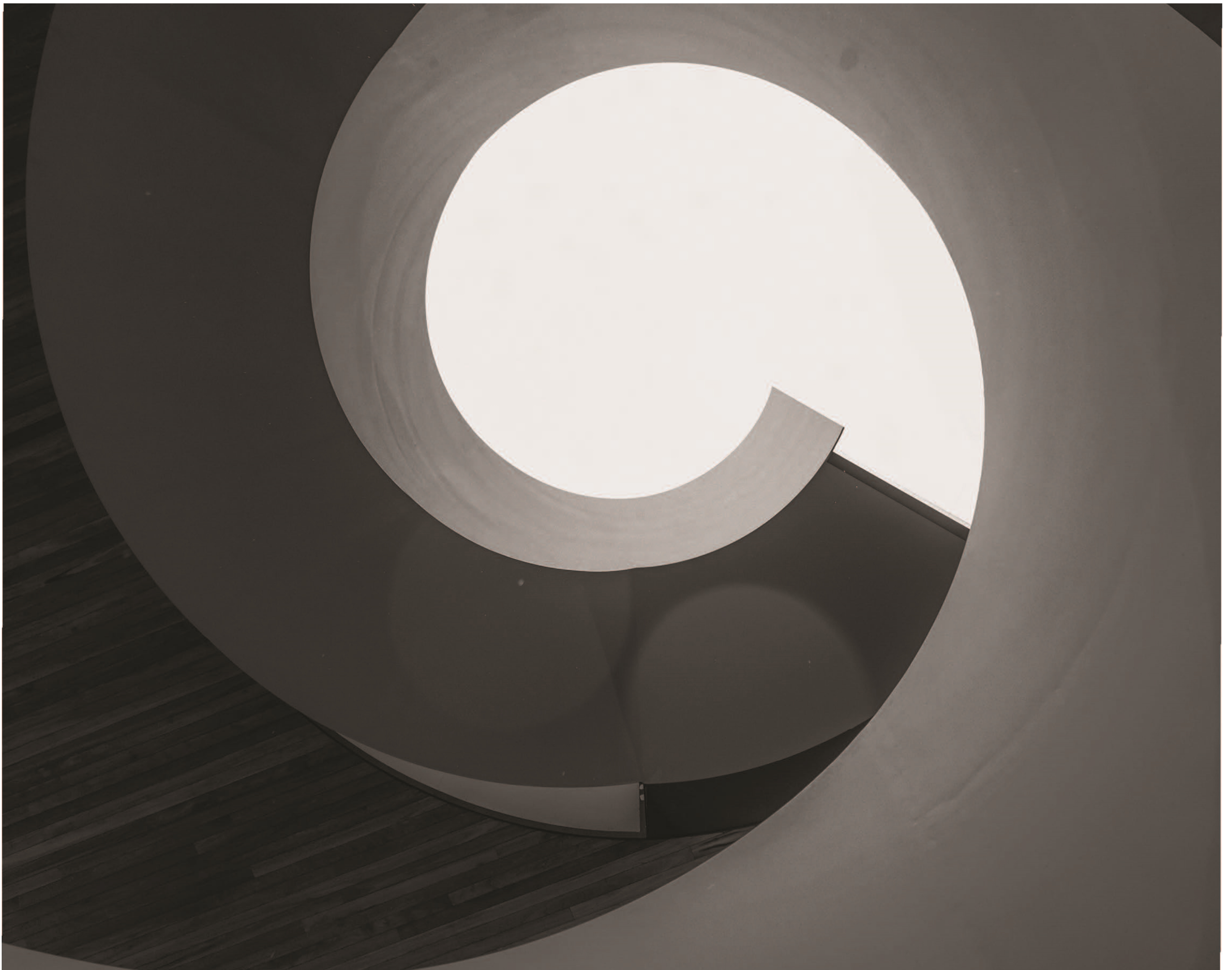
Asset Management



Capital Markets Perspective

From Thrivent Asset Management

March 28, 2024

2024 outlook

A supportive macro environment

In our view, we are nearing the turning point from weaker growth and higher rates to stronger growth and lower rates. Turning points in the economy are notoriously difficult to time as markets become more sensitive to economic data, and thus can become more volatile. For this reason, we recommend investors stay the course, remaining invested in both stocks and bonds.

We expect the economy will achieve a soft landing (the first in a very long time), and that inflation will continue to fall—but not in a straight line and not quickly. A softening domestic economy and a slowing global economy would help reduce inflation, but we maintain our view that the Federal Reserve (Fed) will be conservative, preferring to hold rates as high and as long as it can to ensure inflation doesn't reignite. At the earliest, we don't expect a rate cut until the June or July meeting, and don't anticipate more than two or three cuts for the remainder of the year.

Key risks

Our positive outlook for U.S. stocks and bonds is predicated on our core assumptions being at least roughly correct: The economy won't slip into recession, inflation will slowly decline toward the Fed target rate and interest-rate cuts will follow. As such, the primary risk to our positive outlook is that we are wrong on one or more of these expectations.

The largest risk, in our view, is that inflation stubbornly refuses to decline to the Fed's target level, delaying interest rate cuts. The economy entered 2024 with strong momentum and continues to show signs of strength. A stronger than expected economy could keep inflation stubbornly too high for the Fed or even fuel an acceleration in inflation. The extreme scenario is a kind of stagflation—where inflation remains high, and thus interest rates remain high, slowing the economy and keeping growth stagnant. While such a scenario appears unlikely given economic momentum, surprises can happen. Most likely, in our view, is that inflation will fall, but the path toward the Fed's 2% long-term average target is bumpy and prone to setbacks.

The risk of weaker-than-expected growth is more complicated insofar as modestly weaker growth could put a brake on equity and corporate bond markets (which are currently clearly optimistic as both are near their respective index highs and spread lows), but significantly weaker growth could accelerate the Fed's planned rate cuts, eventually leading to longer-term optimism from both markets. Nevertheless, the areas we are watching closely include the outlook for the consumer sector, the lagged effect of higher interest rates, and the strength of global economic growth.

● Current quarter weighting

○ Previous quarter weighting (if changed)

Overall views p. 5–6

Fixed income	·	·	·	●	·	Equity
U.S.	·	●	·	·	·	International
Large caps	·	·	●	○	·	Small caps
Short duration	·	·	·	●	·	Long duration
High credit quality	·	●	·	·	·	Low credit quality

Equity views p. 7–9

Fixed-income views p. 10–11

	Underweight		Neutral		Over weight
Investment-grade corporates	·	·	·	●	·
High-yield bonds	·	·	●	·	·
Leveraged loans	·	●	·	·	·
Securitized assets	·	·	●	·	·
Emerging-market debt	·	·	●	·	·
Municipals	·	·	·	●	·

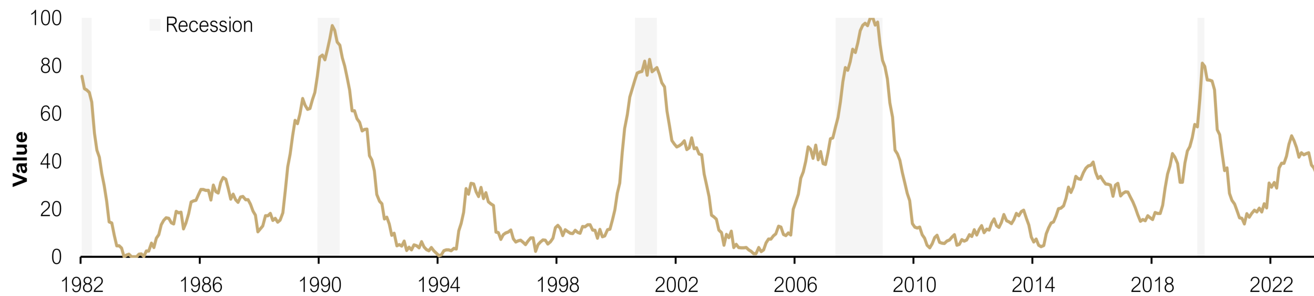
Quarterly highlights

Thrivent Economic Conditions Index

The Thrivent Economic Conditions Index (TECI) has continued to fall from a peak in 2022. Stronger than expected economic data has driven the index lower, which indicates falling risks of a recession. Gross Domestic Product (GDP), a broad measure of the economy, expanded at 3.4% pace in the fourth quarter following robust 4.9% growth in the third quarter. We expect growth through the rest of 2024 to remain solid. A key to the economic strength has been a strong jobs market, as jobs create income which in turn enable spending. And consumer spending accounts for around two-thirds of GDP. An unemployment rate below 4% for 26 months continues to support spending. Despite these positive trends, potential risks to the economy include subdued credit lending, depressed leading economic indicators, rising consumer debt, and sticky inflation. Additionally, the full impact of the Fed's rate hikes likely has yet to hit, as higher rates act with a lag of 12 to 24 months or longer. The TECI's elevated position compared to historical norms indicates that some caution is warranted. Still, our overall outlook remains cautiously optimistic given strong economic momentum to start 2024.

Thrivent Economic Conditions Index

August 1982 – March 2024



Source: Thrivent Asset Management

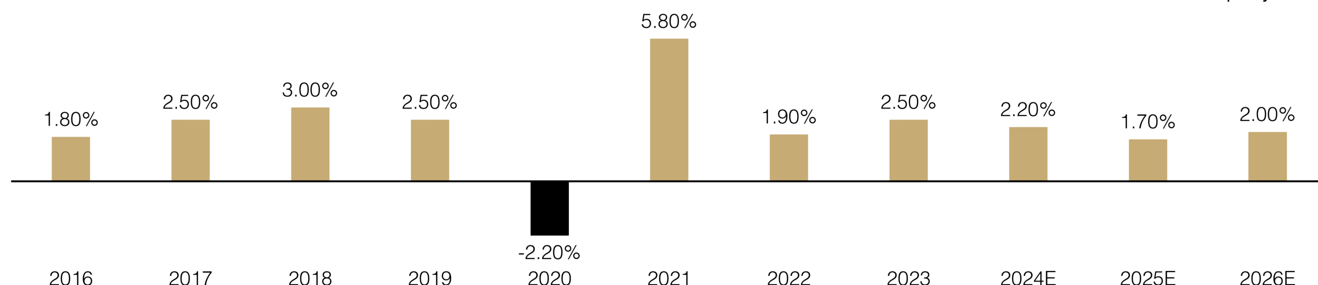
* The Thrivent Economic Conditions Index is Thrivent Asset Management's proprietary index of the U.S. economy, which is based on a wide variety economic indicators. It's one of many tools Thrivent Asset Management uses to evaluate the U.S. economy and estimate the likelihood of economic recession. The higher the value, the more risk there is of a recession.

GDP growth

The strong consensus heading into 2023 was that the economy would fall into recession later in the year or in 2024. Consensus was wrong on 2023. And consensus forecasts for 2024 now have shifted to a soft landing without a recession. Growth still is expected to slow, from 2.5% in 2023 to 2.2% this year. Recession risks remain, but they have fallen significantly. The economy has outperformed expectations, accelerating to end 2023. While a soft landing is now the base case, no landing is possible, meaning the economy could power through without any significant slowing. We expect the economy to slow in 2024 but continue to grow. A key risk to this view is stickier and higher than expected inflation triggering the Fed to delay cuts and possibly raise rates, which would significantly raise recession odds.

GDP growth

2016 – 2026 projected



Source: Bloomberg

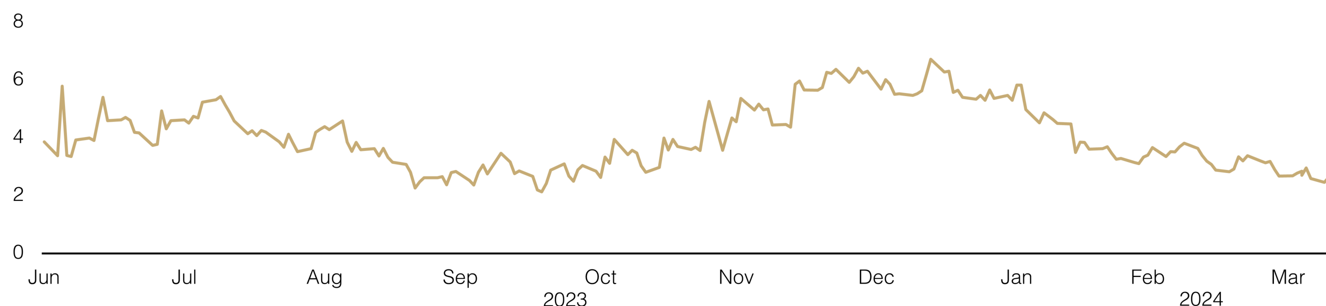
Quarterly highlights

Fed expectations

With inflation readings for the first part of 2024 coming in firmer than expectations and economic growth proving to be resilient, investors have been dialing back their expectations for rate cuts. Initially anticipating more than six 0.25% rate cuts this year, the futures market early in the second quarter priced in fewer than two 0.25% rate cuts. This shift indicated a more hawkish Fed in response to sticky inflation, hinting at a potentially prolonged higher rate period. The repercussions of this adjustment will reverberate across the economy, affecting sectors like housing with nearly 7% 30-year mortgage rates, businesses facing steeper borrowing costs limiting investments, and increased interest payments on the national debt. Despite these challenges, recent years have demonstrated the economy's resilience to higher rates. The full impact of elevated rates typically manifests with a delay of one to two years, underscoring the significance of monitoring developments in 2024 closely.

Number of fed funds rate cuts priced-in by December 2024

June 2023 – March 2024



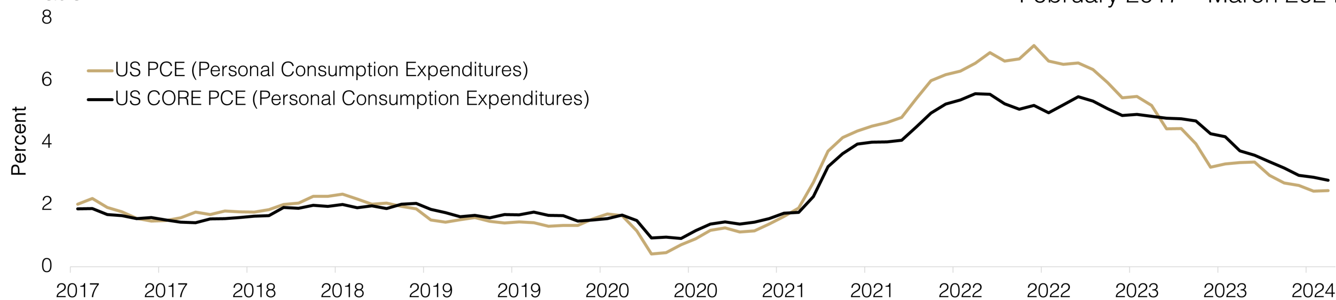
Source: Bloomberg

Inflation

Inflation has continued its downward trend toward the Federal Reserve's (Fed) 2% target. The Personal Consumption Expenditures (PCE) index—the Fed's preferred measure of inflation—has fallen considerably from its peak of 7.1% in 2022. Core PCE, which excludes volatile elements such as food and energy, has also dropped after hitting 5.6%. While we expect inflation to continue to ease, we also expect the path to be bumpy and uneven, especially the so-called last mile of progress toward the Fed's 2% goal. The key will be services inflation, which has been slower to fall and impacts a larger part of the economy than goods inflation. Sticky services inflation has been evident in other inflation measures that have come in hotter than expected recently. A key positive is that the supply issues that drove inflation higher have eased as shortages have largely dissipated. And labor supply has improved, lifting pressure on wages and services inflation. The main risk to achieving the 2% target is an acceleration in growth and a tight labor market reigniting inflation. As always, inflation will drive the Fed and interest rates, which in turn heavily influence the economy and markets.

Inflation

February 2017 – March 2024



Source: Federal Reserve Economic Data

Overall views

Current quarter weighting Previous quarter weighting (if changed)

Fixed income vs. equity

Thus far, 2024 has exceeded expectations. Not only has the S&P 500 managed to extend the rally it began in Q4 of 2023, but it has done so in historic fashion. Since the late October low, the S&P 500 has rallied 27.61% without so much as a 2% pullback (as of March 28)—a move which marks the largest "low-volatility" rally in more than 75 years. Although this type of strength instinctively raises concerns regarding a material drawdown, history suggests otherwise. Yes, some measure of a near-term pullback is likely. However, when we examine the few examples where a rally of similar character occurred, returns over the following year are generally above average. The reason for the continued strength is often related to the motivation for the original rally. Typically, a rally of this form is associated with a recent and meaningful drawdown (such as 2022), an improving economic landscape, and a dovish pivot in monetary policy. Presently, all three conditions are met. Moreover, the prospects for AI-related productivity gains have added to a sense of market optimism. Consequently, despite recently reducing our equity bias within the asset allocation targets slightly, we remain poised to reacquire that weight in the event of near-term weakness.

Equities: U.S. vs. international

We are underweight international primarily in Europe and emerging markets. We favor domestic over international in the intermediate-to-long term for a variety of reasons including peak globalization, a higher degree of innovation domestically, greater demographic challenges internationally, structural issues in Europe, and a more favorable climate for businesses domestically (e.g. regulation). In the first quarter of 2024, as in 2023, the S&P 500 bested both international developed and emerging market equities, with outperformance of approximately 5% and 8%, respectively. We continue to recognize the significant influence of the largest stocks in the S&P 500 on domestic vs. international relative performance and the possibility of a pullback in those names. Consequently, while we are not calling for international markets to outperform in the short-term, we retain the capacity to add to our international underweight if that occurs.

Equities: Market cap

Domestically, we are overweight both large and mid-caps, while maintaining a modest underweight in small-caps. Since the equity market's bottom on October 27th, indices across all cap sizes have appreciated significantly, ranging from approximately 27% to 31%. While substantial returns from the largest constituents of the S&P 500 since the beginning of 2023 are noteworthy, historical shorter-term outperformance of the largest stocks hasn't been predictive of future returns on its own. Nevertheless, this previous outperformance, coupled with potentially lower interest rates and the avoidance of a recession (i.e. a soft landing), might create an environment conducive for small and mid (SMID) caps to regain some ground. However, at present, we favor the higher quality and profitability typically found in large caps over small caps. Our concurrent overweight to mid-caps positions us to benefit from any potential outperformance in the SMID sector, should it materialize.

Overall views

Current quarter weighting   Previous quarter weighting (if changed)

Fixed income: Duration

The Federal Reserve has remained paused on rate hikes since July of 2023, maintaining its target for the Fed Funds at 5.25% to 5.50%. The Fed, however, signaled that rate cuts are likely this year. Despite the Fed signaling possible rate cuts, long-term interest rates such as the 10-year Treasury rose in the first quarter as the economy outperformed growth expectations and inflation came in higher than expected. The widely watched 10-year less two-year rate curve changed little, remaining inverted with two-year rate higher than the 10-year rate. We expect the Fed to start cutting rates around mid-year but proceed at a measured pace with two or three rate cuts this year. Proceeding slowly allows the Fed to assess the impact of rate cuts on the economy and inflation. The Fed doesn't want to cut too fast and risk inflation accelerating. The key risks to this view are that inflation comes in higher than expectations and prompts the Fed to hold rates high longer or hike again, or that the economy decelerates quickly prompting rate cuts. We are modestly long duration with roughly neutral positioning across the curve. While rates are likely to continue be volatile and choppy, we expect rates to move lower through 2024 through a combination of lower inflation and rate cuts. We expect the 10-year/2-year curve to steepen in 2024, eventually ending the lengthy curve inversion that began in July of 2022. The Treasury curve typically steepens after the end of a rate hiking cycle as the two-year rate falls in anticipation of rate cuts.

Fixed income: Credit quality

Fixed income credit spreads continued to decline in the first quarter with strong economic data increasing the likelihood of a soft landing in addition to growing expectations that lower inflation would enable the Federal Reserve to begin cutting its target interest rate. Continued strong demand from investors seeking to take advantage of higher yields also helped drive spreads lower. Despite credit spreads tightening, higher long-term interest rates produced slightly negative to low single-digit returns for investment-grade corporates, high-yield bonds, leveraged loans and emerging-markets debt. Spreads for high-yield and investment-grade corporate bonds tightened despite entering 2024 below long-term averages and medians. Spreads across most of corporate credit are around the 10th decile (rich) of historical performance. Spreads are likely to remain rangebound at relatively rich levels absent an unexpected deterioration of the economy. Ongoing strong demand, solid economic growth and generally sound fundamentals should support credit spreads. Defaults are likely to edge higher in lower-quality high yield and especially for leveraged loans, where credit quality has deteriorated more. The risks, however, are skewed given limited room to tighten further and a chance of substantial widening in a risk-off market. We are positioned roughly neutral credit risk versus our long-term strategy within broad fixed-income portfolios. We favor high-quality fixed income such as investment-grade corporates versus lower-quality fixed income, such as high yield and leveraged loans. While we are cautious at current levels, we are watching for opportunities to add credit risk should spreads widen substantially.

Equity views

Communication Services

The Communication Services sector outperformed the broad market in Q1. MEGA platforms outperformed overall but with divergence. Traditional media, advertising, and carriers overall turned in mixed performance with a narrow sleave of stocks performing well. The forces away from traditional to digital media remain firmly in place with AI adding another potential accelerant. AI's ability to both shrink or widen moats is under full debate and will remain so. In 2024 we expect traditional advertising spend to grow low single digit with continued pressure on linear TV spend. Cord cutting persists but direct-to-consumer streaming platforms are entering a weed-out phase. We expect digital media to grow high single digit driven by retail media growth, and long and short form video advertising. Going forward the overlay of AI will keep evolving in sync with the technology offering profound impacts on content creation, ad targeting and overall engagement.

Consumer Discretionary

The Consumer Discretionary sector meaningfully lagged the overall market in Q1. Outperforming segments in the quarter centered around eCommerce, Home Improvement, Auto Parts Retailers, and Hotel companies. Lagging discretionary sectors included electric vehicles and athletic apparel. Consumer spending patterns as measured by PCE data appear set to largely return to pre-pandemic mix between goods and services in 2024 which should allow for sell-through to move in line with sell-in heading into 2025. We view this as an incremental tailwind for discretionary/durable goods categories that fought declining wallet share and retailer destocking in recent years. Spending patterns continue to be weaker for lower-income consumers as they absorb higher non-discretionary cost while not benefiting from asset appreciation and return on savings that has bolstered wealthier households. In restaurants, traffic has also begun to weaken with less pricing, however strong brands continue to grow and take share. We continue to see category leaders and best operators taking share. Innovation and differentiation are paramount to company outperformance within the competitive consumer discretionary subsectors.

Consumer Staples

The Consumer Staples sector lagged the overall market in Q1. Club Stores, Super-Stores and Grocery Stores were relative outperformers while Packaged Food stocks continue to lag. GLP-1 weight loss drugs' potential to impact future volume growth remains a hot topic. Food Producer Price Index (PPI) disinflation and overall consumer pricing appears to have troughed in recent months. A better balance of wage growth versus price suggests better growth ahead for certain staples and discretionary categories. Going forward, we continue to favor share-gaining super-center retailers, category leaders, and expect club and convenience stores to benefit from ongoing growth in fuel profit margins. In food, we prefer internal initiatives and drivers that can generate positive sales growth including volumes while maintaining pricing integrity. Energy and beauty remain stand-outs showing volume growth.

Energy

The Energy sector outperformed the broader market in Q1. Recent focus has been on two beaten down areas in Energy: renewables and natural gas. After seeing 12-18+ months of deteriorating fundamentals, we expect to see improving fundamentals into 2025 and beyond. In renewables, unfavorable policy changes, restrictive access to capital and high interest rates acted as headwinds. Go forward underlying demand looks to be improving as the industry has had time to adapt and long-term demand trends appear intact. In an election year we expect renewables sector policy risk will continue and thus remain very selective with a focus on "real" companies defined as those with a competitive moat, generating free cash flow, and earnng a return higher than their cost of capital. For natural gas, our view is unchanged. In 2025 and beyond the U.S. will see the startup of natural gas export facilities. For natural gas exposed companies, we don't see "a rising tide lifts all boats" scenario, geographically where their assets sit and/or where they play in the value chain will matter.

Equity views

Financials

Financials modestly outperformed the broad market in Q1. Bank stocks in total performed in-line with broader financials, although regional banks significantly underperformed. A higher-for-longer interest rate expectation is less favorable for regional bank fundamentals. Credit quality deterioration is a focus in select loan categories, especially office commercial real estate. Within asset managers, alternative and private market asset managers enjoy a favorable dynamic that includes opportunities in private credit, retail democratization and a potential improvement in realizations in portfolios. The most attractive asset managers have diversified platforms that consistently have positive net inflows which currently favors alternative / private market managers. At the margin, the outlook for capital markets activity continues to improve as rates and volatility trend favorably in support of increased deal activity. We remain very selective across the insurance space given a multitude of underwriting hazards that are evolving in real time. We continue to favor wholesale commercial property & casualty insurers and reinsurers with outstanding underwriting track records as they will benefit from on-going margin and return expansion, even in softening markets.

Health Care

Healthcare underperformed the broader market in Q1. Utilization of the healthcare system has been elevated to start the year, particularly amongst the 65+ Medicare population. We expect this trend to continue throughout 2024, supporting a favorable investment backdrop for hospitals, post-acute service providers, distributors, and medical technology & equipment suppliers. Conversely, high utilization has challenged managed care medical cost ratios. Added pressure came from the Centers for Medicare and Medicaid Services (CMS) announcement of lower-than-anticipated Medicare Advantage rates for 2025. While these dynamics favor commercial and Medicaid exposed insurers in the near-term, we anticipate that this will push the Medicare Advantage market toward consolidation, and we seek to position our portfolios accordingly. Biotech funding surged in Q1. If steady biotech funding continues, this signals a more stable backdrop for the biotech sector and stronger revenue growth to come for biotech suppliers such as life science tools companies and contract research organizations. China remains in a biotech recession for the foreseeable future. Accordingly, we prefer stocks with greater customer exposure to US-based pharma & biotech companies, as well as stocks where fundamentals are bottoming.

Industrials

The Industrials sector outperformed the broader market in Q1. Demand has been resilient/recovering with outsized profit margin performance. Purchasing Managers' Index (PMI) indicators are moving from contraction to expansion and our analysis points to early cycle industries seeing demand improvement. Price cost dynamics have been favorable as inbound pressures have receded (including moderation in labor) while outbound pricing is stable. We remain confident in longer-term housing fundamentals given demographic trends and supply constraints. This in turn has driven outperformance for homebuilders and building suppliers. Divergences in spending across non-residential construction verticals are likely, based on stimulus and secular drivers. Electrification is a dominant theme for industrials with a long but varied runway. Trucking fundamentals should improve through 2024, with LTL names (companies that ship relatively small freight loads) positioned to benefit from industry consolidation and continued price discipline. Disruptions to global freight routes are seemingly frequent but overall consequences have been minor.

Equity views

Information Technology

The technology sector outperformed the broad market in Q1. AI infrastructure remains a strong driver of demand for semiconductors and tech hardware which is widely recognized. Trends should continue into 2025 with AI use cases adoption and application development. The AI hardware stocks could become more volatile relative to hyped expectations. The rest of the supply chain and tech hardware areas continue to move along the cyclical bottom. Electric vehicles (EVs), PC, and phone demand has been underwhelming following normalization. Software & services started the quarter underperforming due to smaller-than-expected IT budget growth and slower AI adoption. We view this as temporary and are still bullish on the long-term secular trend of digital transformation and AI. Enterprise IT budgets continue to prioritize less discretionary functions and vendor consolidation for cost savings. We believe cybersecurity vendors and software platforms will be the main beneficiaries. Early AI are focused on the enabling hardware infrastructure, data organization, and security and compliance frameworks. AI use cases in enterprise software are still at the experimental phase but we see opportunities in software companies that are participating in early use cases such as customer service, code development, and productivity tools.

Materials

The materials sector performed essentially in line with indices in Q1. The sector is more attached to macroeconomic activity than most. Much ink is spilled on whether-or-not there a recession will occur, but for many industrial end markets the recession has already happened. The global manufacturing purchasing managers indices recently rose into expansion territory for the first time since August 2022. Historically this is a good sign for commodities, and we are tilting within the sector to companies earlier in the materials/minerals extraction/conversion/production continuum. As is always true, variability across industries in the sector was material. For Q1, construction materials, copper and steel all did well on electrification and reshoring themes. We have several holdings in those industries and expect more than thematic activity with robust earnings forthcoming. 2024's unit growth should be improved in Europe and China especially. Better volumes, overhead absorption, and price/cost margin improvement argues for earnings acceleration in 2024. Stocks are reasonably priced and should advance with growing earnings.

Real Estate

Real estate investment trust (REIT) stocks significantly underperformed in Q1, as higher interest rates stifled last quarter's optimism for a potential easing environment. All subsectors were generally weak, but data centers remained a bright spot due to positive AI sentiment. The forward outlook varies by subsector: Office occupancy is struggling to find a bottom, Multifamily supply competition remains high throughout 2024, and all sectors continue to absorb higher interest rates as debt matures. Positively, higher capital costs and tighter lending conditions are moderating new construction starts. This has the potential to ease future supply competition and improve real estate fundamentals. Our process remains highly selective, favoring REITs with consistent demand, high barriers to new supply, and flexible balance sheets. Sectors that stand out positively include Cell Towers and Self-Storage.

Utilities

Following severe underperformance in 2023, the first quarter of 2024 did not change the trend for utilities. Relative valuation multiples remain at very attractive levels arguing for outperformance over the long-term and a lower interest rate environment could make utilities' dividend yields more attractive. A focus in the quarter was on the power segment of the utility sector as increased demand from data centers captivated investors. This in turn is driving outperformance of the Integrated Power Producers (IPPs) within the sector. Utilities across the country are increasing forecasts for future power needs driven by several trends including reshoring of industry to the US, electrification of the economy and now higher demand from data centers driven by AI breakthroughs. The increasing power demands come at a time when many utilities are closing fossil fuel generation to meet environmental goals. Increased renewable generation investments along with investments in electric grid reliability and resiliency should drive solid earnings growth for the next decade. We remain focused on companies with strong growth outlooks, solid balance sheets and favorable regulatory jurisdictions.

Fixed-income views

Current quarter weighting   Previous quarter weighting (if changed)

Investment-grade corporates

Investment grade corporate bonds continued their recent strong performance during the quarter and credit spreads in the U.S. corporate bond market are now trading at levels which we consider very fully valued. Corporate earnings and balance sheets should remain resilient in 2024, however, current levels incorporate few, if any, potential downside risks to the economy. While we do not currently find much value in credit spreads, we do believe absolute yield levels for investment grade corporate bonds are very attractive.

Risks to our outlook include a labor market that remains tighter than expected and wage growth that remains at levels that could put upward pressure on inflation. This and other inflationary pressures which have not yet fully abated could prompt the Fed to maintain a restrictive policy stance longer than the market is currently expecting. The health of the consumer and businesses in the face of higher interest rates is also key to our outlook, and we are watching for any signs of weakness. There are also numerous geopolitical risks which could impact our markets in 2024. We are maintaining a somewhat neutral risk profile and are waiting for a better opportunity to add risk.

High-yield bonds

Improving capital markets, a supportive earnings season, and a Fed that appears intent on cutting rates this year continued to encourage risk taking in the high-yield market. With spreads (the additional yield over risk-free Treasuries) of the high-yield market inside 300 basis points, the market is trading in the top fifth percentile of its historical long-term trading range. Current yields in the market are still quite wide of historical averages and can produce attractive returns without spreads declining further. In addition, if the Fed starts cutting interest rates this year as the market currently expects, this will help boost returns.

Leveraged loans

Year-to-date, leveraged loans have outperformed high-yield bonds. For 2024, loans are expected to generate mid-single digit returns. Some of the expected 2024 returns were pulled forward into 2023 performance during the strong fourth quarter. Loan mutual funds/ETFs inflows have turned positive year-to-date, and collateralized loan obligation (CLO) formation should continue to be a beneficial source of loan demand for 2024. Credit risk concerns remain with downgrades expected to continue to exceed upgrades and increasing defaults. Loans should do relatively well in an environment where interest rates remain at higher levels rather than coming down throughout the year.

Fixed-income views

Current quarter weighting Previous quarter weighting (if changed)

Securitized assets

Agency mortgage-backed securities (MBS) spreads finished the first quarter mostly unchanged while moving within a narrow band during the quarter. The Fed is on hold but their next move is most likely easing in 2024. We hold our max Agency MBS exposure waiting for weakness to reallocate to non-agency residential mortgage-backed securities (RMBS), CLO, and CMBS strategies. Going forward, we are neutral Agency MBS versus Treasuries with MBS spreads at tighter levels. The soft-landing scenario is now expected by the market.

Emerging-market debt

Emerging Market Debt (EMD) finished 2023 on a tear, with the broad indices returning over 9% in Q4, driven by lower US Treasury yields and 46 bps of index spread compression. Q1 2024 has been more volatile, returning 2.04%, driven by tighter spreads (-42bps), partially offset by higher US Treasury yields (+32bps). 1Q performance has come from idiosyncratic stories (Egypt, Ukraine, Argentina, Pakistan, Angola) while higher quality names lagged on higher Treasury yields. All-in yields in EMD remain reasonably attractive relative to alternative risk sectors, but EMD spreads are tight relative to averages and the timing and trajectory of the anticipated Fed easing cycle is a big question as the 'last mile' disinflation path remains sticky. Positive factors include supportive US and global growth and lower near term EM default risk. We have a neutral view on EMD.

Municipals

We expect the Fed to continue its current, wait and see strategy until there is a more clear-cut move in the U.S. economic data. The municipal market is currently providing attractive absolute yield levels, especially on longer dated maturities. Credit spreads have been tightening, making yield paper relatively less attractive. A concern for the fixed income markets is the perceived lack of worry from the two presidential candidates regarding the size of the Federal deficit. We expect market volatility in the fixed income markets to continue, fueled by economic data, national politics and geopolitics.

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