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# Eyes on the Market, Q3 2024

1. **Employment, one shoe drops;** Leisure and hospitality's contribution to monthly job gains has stalled. Healthcare gains appear to be on trend due to secular forces. Government employment is subject to possible impacts from past stimulus to state and local governments. A H2'24 run rate of 150k in gains would mark a notch down from 2023.

2. **Inflation, continued cooling;** The NFIB (National Federation of Small Business) Price Plans, which has historically led headline reported CPI, is pointing to a continued decline in H2'24 inflation. If realized, market pricing of Fed cuts (75bps of rate cuts this year) stands to be validated.

3. **Housing, normalizing on rising inventory;** The number of months of existing home supply is above pre-pandemic levels, at 4.1 months currently compared to 3.9 months averaged in 2019. The "hot" states of Florida and Texas are leading the way towards normalization from the pandemic boom.

4. **Consumer, bifurcated;** Pockets of a stretched consumer are increasingly showing up in earnings calls. Younger and weaker credit cohorts are showing shifts in spending patterns and rising delinquency trends. So far, future employment trends hold the key to consumer strength ahead.

5. **MBA's purchase index, a break from trend;** The purchase index has been declining as mortgage rates have rallied. This is a notable break from long-term trends also observed as recently as late last year when mortgage rates rallied sharply. Perhaps the more gradual and modest rally today is holding back homebuyers.

6. **Bank balance sheets, transferring credit risk;** A steady rise in the US of public and private synthetic risk transfers in 2024 highlights the progression of a "Capital Recession." Final Basel III Endgame rules and CRE markdowns will add to this momentum, especially across regional banks.

7. **Allocation, shifting to "quality duration";** ETF performance shows returns on high yield (fixed and higher credit quality) catching up to senior loans (floating and lower credit quality). The TLT ETF is witnessing inflows. The agency MBS/high grade spread differential stands to close on a continuation of this trend.

8. **Credit curves, downgrades on watch;** Yield in demand and strong credit appetite on broader economic resilience has flattened credit curves through the year. Divergence in credit curves across asset classes should start to reflect sector specific fundamentals (real estate, housing, consumer, corporate credit) as downgrades are starting to drive underperformance in CCC-rated bonds.

9. **Bank of Japan normalizing policy;** The BoJ raised its benchmark rate and announced Quantitative Tightening (QT). The yen has strengthened on this news. Until now, the yen carry trade has lent support to risk assets. Convergence in policy across central banks globally could drive valuations across risk-free assets and the risk complex.

10. **High geopolitical risks;** Election uncertainty in the US come on the heels of surprise election outcomes in France, the U.K. Mexico, and India. Continued war in Ukraine and escalating tensions in the Mid-East.

## The Rithm Take

Resilience has paved the way for normalization across inflation, employment, housing and the consumer. Allocations are adrift, from floating rate credit exposure to quality duration assets. Event risks remain high, with election uncertainty and shifting geopolitics.