EQUITABLE

Quick Take TAKE 5 VIEWS

“Carry”ing on in the bond market

Kenneth T. Kozlowski, CFP, CLU, ChFC
Chief Investment Officer
Equitable Investment Management

A wise pundit once said, when markets are going crazy: “Don’t just do something; stand there!” In recent days, we’ve reached out to some of the fixed-income strategists, economists and bond analysts who help us manage more than $115 billion in assets. They speak with almost one voice—counseling calm in the face of dramatic swings. Here, I’m pleased to relate the perspectives they’ve shared with us in recent days.

Keeping cool when markets get hot

Jeffrey Sherman, deputy chief investment officer of DoubleLine Capital, recently told Equitable Investment Management that the early August spike in volatility was probably not directly driven by macroeconomic factors but rather by the impact of high valuations in parts of the equity market and certain institutional leverage trades (called “carry trades”) that were unwinding due to changes in interest rates in the U.S. and Japan. Although some credit-quality indicators are flashing warning signs about the strength of lower-quality borrowers, DoubleLine is not currently looking for an imminent economic slowdown. And as investors wait to see how Federal Reserve actions impact the cost of credit and consumer spending levels, inflation is narrowing in on a 2.5% annualized rate and Treasury notes are yielding an attractive 4%-plus. That real yield means investors “are getting paid to wait,” he said. In this environment it’s important to stick to a discipline, remembering to rebalance from time to time. “And don’t get caught up in the frenzy,” he concluded.

The short and long-term of it

Paul Mielczarski, head of Global Macro Strategy at Brandywine Global, agrees with this assessment. He told us that he believes most of the trades that triggered the early August meltdown were in fact overly aggressive, over-leveraged positions that gained popularity with big institutional investors during the long stretch of low-volatility trading that preceded the market turn in July. “While markets may overshoot further,” he said, “we do not expect these extreme moves to last much longer.”

However, Brandywine is also preparing for the possibility that a slowdown or recession might materialize, an uncertainty that may take longer for the markets to resolve. From this perspective, Mielcszarski told me that the securities might eflect up and down data trends, showing weaker or stronger numbers, pointing to conflicting views of the economy’s future course. “The labor market and jobless claims will be particularly important indicators,” he said. “And we will be watching for early signs that companies are becoming more cautious on hiring.”

A contest between price momentum and fundamentals

Chris Iggo, chair of the AXA IM Investment Institute and chief investment officer of AXA IM Core, adds that political uncertainty, global tensions, and disappointment with the U.S. Federal Reserve are among the many factors that lead to a dramatic move in the markets during what can historically be a volatile summer season. “Typically, we would look to central banks to restore market calm,” he commented. While he finds that underlying fundamentals for the U.S. and global economies are fine, pointing to recent International Monetary Fund reports, he nonetheless expects short -erm turbulence may lead to a reassessment of risk. “Uncertainties will drive risk-off positioning, which should be to the benefit of government bonds, high-quality credit and currencies like the Swiss franc and the yen,” he said.

IMPORTANT INFORMATION

Information provided in this newsletter is general in nature, is provided for informational purposes only and should not be construed as investment advice. The views and opinions expressed are those of the authors as of the date of their contribution, and do not necessarily represent the views of their affiliated investment advisors, Equitable Investment Management Group, LLC or its affiliates. Any such views and opinions are subject to change at any time based on market, or other conditions, and are not intended to be a forecast of future events, a guarantee of future results or investment advice. Securities and sectors referenced should not be construed as a solicitation or recommendation, or be used as the sole basis for any investment decision.

All investments contain risk and may lose value. Statements concerning financial market trends or portfolio strategies are based on current market conditions, which will fluctuate. There is no guarantee that these investment strategies will work under all market conditions or are appropriate for all investors and each investor should evaluate their ability to invest for the long term, especially during periods of downturn in the market. Outlook and strategies are subject to change without notice.

Past performance is not a guarantee of future results. Portfolio rebalancing and diversification do not guarantee a profit or protection against loss in a declining market.

No guarantee or representation is made that investment objectives and/or opinions stated will be achieved. The experience of each specific client or investor may vary.

Due to the subjective aspect of these analyses, the effective evolution of the economic variables and values of the financial markets could be significantly different from the projections, forecasts, anticipations and hypotheses, which are communicated in this material.

Quick Takes feature commentary from subadvisors of investment portfolios that are available through mutual funds, model portfolios, and variable life insurance policies and variable annuity contracts issued by Equitable Financial Life Insurance Company of America (Equitable America) (AZ stock company) with an administrative office located in Charlotte, NC, and Equitable Financial Life Insurance Company (Equitable Financial) (NY, NY), and mutual fund products. DoublleLine, Brandywine Global and AXA Investment Managers , are not affiliated with Equitable America, Equitable Financial or their affiliates. Variable annuities and variable life insurance products are co-distributed through Equitable Advisors, LLC (member FINRA, SIPC) (Equitable Financial Advisors in MI and TN) and Equitable Distributors, LLC.

Equitable Investment Management Group, LLC (EIMG) is a wholly-owned subsidiary of Equitable Financial, which is an indirect, wholly-owned subsidiary of Equitable Holdings, Inc. Equitable Investment Management, LLC (EIM LLC) is an indirect, wholly-owned subsidiary of Equitable Holdings, Inc. EIMG and EIM LLC are affiliates of Equitable Advisors and AllianceBernstein L.P ("AB"). References to "Equitable Investment Management" include EIMG, and its affiliate, EIM LLC, unless otherwise stated.

1290 Funds is part of the family of mutual funds advised by Equitable Investment Management Group, LLC (EIM). EIM is a wholly owned subsidiary of Equitable Financial Life Insurance Company (Equitable Financial), NY, NY. Equitable Distributors, LLC is the wholesale distributor of the 1290 Funds. Equitable Advisors, LLC (member FINRA, SIPC) (Equitable Financial Advisors in MI and TN) offers 1290 Funds to retail investors. The Funds are distributed by ALPS Distributors, Inc., which is not affiliated with EIM, Equitable Financial Life Insurance Company, Equitable Distributors, LLC, Equitable Advisors, LLC (member FINRA, SIPC) (Equitable Financial Advisors in MI and TN) or the subadvisors. Model portfolios are made available to clients of financial intermediaries, including Equitable Advisors, through LPL Financial's Model Wealth Portfolio (MWP) program on a non-discretionary basis by Equitable Investment Management.

An investor should consider investment objectives, risks, charges and expenses carefully before investing. Obtain a copy of the prospectus at 1290funds.com, which contains this and other information, or call (888) 310-0416.

Read the prospectus carefully before investing. Please consider the charges, risks, expenses and investment objectives carefully before purchasing a variable life insurance policy or variable annuity. For a prospectus containing this and other information, please contact a financial professional or visit equitable.com. Please read the prospectus carefully before you invest or send money.

Variable Life Insurance, Variable Annuities and Mutual Funds: • Are Not Deposits of Any Bank • Are Not FDIC Insured • Are Not Insured by Any Federal Government Agency • Are Not Bank Guaranteed • May Go Down in Value

© 2024 Equitable Holdings, Inc. All rights reserved. (GE- 6872791.1 (8/24) (Exp 8/26)

EQUITABLE