LEVERAGED FINANCE MARKET PERSPECTIVE LETTER

Amid the Storm

Volume 37, Issue 2 | February 3, 2022

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January was a brutal month for the financial markets. The market storm was the direct fallout from the Fed's planned pivot from quantitative easing to quantitative tightening. Once the new year arrived, investors suddenly recognized that more hawkish Fed policies of reducing liquidity by raising interest rates and shrinking their balance sheet would be required to tame the inflationary pressures brewing in the U.S. economy. The debate over the size and frequency of rate hikes only adds to greater market uncertainty and volatility. Simultaneously, persistent supply chain problems, chronic labor shortages, and lingering fears of covid infections are starting to adversely impact economic growth. The real risk to the markets this year may be the unwinding of the Fed's $8.9 trillion balance sheet, adding another layer of complexity. Manufacturing data, the shape of the yield curve, and extremely low default rates are not signaling an imminent recession. For the credit markets, the balance of power has shifted from the issuers to the lenders, which should provide investors with higher new issue yields in 2022. The most challenging times occur when storms hit the markets and visibility is limited. Getting back to a normalized monetary policy should benefit the markets in the longer-term.

Please contact InvestorRelations@ShenkmanCapital.com for the full letter.