Growth and the Fed

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It was the medical equivalent of winning the lottery. Patty Ris, an 87 year old resident of a Cincinnati nursing home, began to choke on her hamburger. A man seated next to the woman, seeing her distress, smoothly performed the Heimlich as if he had invented it. The piece of meat popped right out.

Turns out he *did* invent it. Dr. Henry Heimlich, 96, also a resident, later informed reporters it was the first time he had actually performed his namesake maneuver. Ms. Ris told the retired thoracic surgeon, "God put me in this seat next to you."

Healthcare has also been a big part of the capital markets story this year. Morgan Stanley reports the sector demonstrated the most increase in net corporate debt, at just under 30%, of any industry. This was followed by information technology (20%), consumer discretionary (17%), and energy (11%).

Leverage has also increased for healthcare names. This has been due, in large measure, to increased M&A deal flow. As the sector continues to consolidate, corporate healthcare issuers had the second highest debt to ebitda levels after energy.

Across all sectors, growth has been hard to come by. While we are currently enjoying the fifth longest recovery in US history, average GDP has barely squeaked above the 2% level on average. S&P reports that 1Q earnings per share of the S&P 500 dropped almost 6%, on the heels of a 4.2% 4Q decline.

By contrast, ebitda growth for non-investment grade borrowers has been maintained at consistently high levels in 2016. Companies filing publicly in S&P/LSTA's Leveraged Loan Index showed 7.1% ebitda improvement for the quarter ended March 31st. While down from the 12% performance back in 2012, this number was steady from 4Q 2015. (See our *Chart of the Week*).

This backdrop will be important as the Fed weighs its next move. Some relatively positive economic news, including improved jobless claims, has heightened the chances of the first rate hike since December of last year. It seems hard to justify given worries about Brexit, commodity prices, and the election, but observers note the bar has been lowered considerably on what constitutes inflationary risk.

It's also helpful that energy prices have seen significant upward movement over the past several months. At around $50 per barrel, oil has seen its fastest climb in over seven years, from a thirteen year low of $26 in January. That's taken some of the pressure off credit default contagion worries.

Interestingly, consumers at the same time are ramping up new car purchases. That's driven consumer expenditures to their quickest monthly growth pace in six years.

We expect this backdrop will continue to be constructive for credit markets and deal flow as we head towards, incredibly, the halfway point of the year.