Payden&Rygel Investment Management — WEEKLY MARKET UPDATE

June 24, 2016

MARKET LEVELS

	Friday*	Last week	Dec. 31, 2015	One year ago
Dow Jones Industrial Avg	17,615	17,675	17,425	17,890
S&P 500	2,066	2,071	2,044	2,102
NASDAQ	4,772	4,800	5,007	5,112
Russell 2000	1,139	1,145	1,136	1,283
DJ STOXX Europe 600 (€)	327	326	366	396
Nikkei Index (¥)	14,952	15,600	19,034	20,771
MSCI EM Index	425	415	411	466
Fed Funds Target	0.25%-0.50%	0.25%-0.50%	0.25%-0.50%	0.00%-0.25%
2-Year Treasury Yield	0.65%	0.70%	1.05%	0.69%
10-Year Treasury Yield	1.57%	1.61%	2.27%	2.41%
U.S. $ / Euro	1.11	1.13	1.09	1.12
U.S. $ / British Pound	1.38	1.44	1.47	1.57
Yen / U.S. $	102.31	104.16	120.22	123.63
Gold ($/oz)	$1,314.33	$1,299.00	$1,061.42	$1,173.25
Oil	$46.71	$47.98	$37.04	$59.55

**Levels reported as of 7:34 a.m. PDT*

MARKET RETURNS

Year-to-date (12/31/15 – 06/24/16)*

Dow Jones Indus Avg.	2.47%
S&P 500	2.16%
NASDAQ	-4.05%
Russell 2000	0.97%
MSCI World Index	1.74%
DJ STOXX Europe 600	-8.31%
MSCI EM Index	3.43%

**Returns reported as of 7:34 a.m. PDT*

Year-to-date (12/31/15 – 06/23/16)

90 Day T-Bill	0.15%
2-Year Treasury	0.95%
10-Year Treasury	5.54%
ML High Yield Index	9.56%
JPM EMBI Global Diversified	9.01%
JPM Global Hedged	5.06%

RECAP OF THE WEEK'S ECONOMIC RELEASES

Date	Report	Survey	Actual	Prior	Details
06/22	(CA) Retail Sales MoM	0.80%	0.90%	-1.00%	Canadian retail sales improved on the back of higher sales at gas stations.
	(US) Existing Home Sales	5.55m	5.53m	5.45m	US existing home sales increased to their highest post-crisis level.

ECONOMIC OVERVIEW

Early this morning the United Kingdom voted to exit the European Union in an advisory referendum. In the aftermath Prime Minister David Cameron tendered his resignation and the pound touched its lowest level against the US dollar since 1985. But there is more to the story than shock. The consequences of Brexit will remain unknown for some time, to say nothing of its implementation. Investors, we think, will be best served by measured consideration of the actual impact of a country which accounts for ~2% of global growth leaving a political union. Britain is the first country to leave the EU. As a result history isn't much help in evaluating the benefits of the decision. Our highest conviction view is that the British economy is probably as likely to perform well outside of the EU as it was inside the EU. Once the dust settles (no matter how long it takes), it will be clear that Britain still trades with the rest of the world, immigrants still arrive on UK shores, and the competitive advantages of certain segments of the UK economy will remain intact. Changes to those variables, in our view, would be just as likely inside the EU as out.

US MARKETS:

TREASURIES

- The historical UK Referendum had Treasury volumes over seven times the daily average as the people of Britain voted to leave the European Union which some have called the largest shakeup in Europe since the fall of the Berlin Wall. Prime Minister David Cameron announced he will resign his post preferring to not "steer our country to its next destination" while the Bank of England and European Central Bank have already made statements around doing whatever it takes to stabilize markets.

- Wall street banks are now calling for a Bank of England rate cut from 0.50% to 0.05% and the initiation of another round of asset purchases. Clearly the markets got this wrong with S&P futures hitting a limit down order overnight and the British Pound hitting the lowest level since 1985. The futures markets are now pricing in a higher probability of a rate cut through March 2017 than a hike in the US. Banks struggled with funding overnight and repo general collateral traded all the way up to 1.10%. 10-year Treasuries came close to 1.40% overnight before retracing close to have of the move from above 1.70% while 5-years at one point were 30 basis points lower.

LARGE-CAP EQUITIES

- The U.S. Equity Market fell in a volatile week of trading as the U.K. shocked global markets after voting to leave the European Union. Leading up to the much anticipated referendum vote, market participants had begun to price in a "Bremain" vote, which pushed equity prices back to recent highs.

- The unprecedented vote to leave triggered a massive risk-off trade in the capital markets, which saw most broad regional equity indices fall 10% at its lows. The S&P 500 and Dow Jones Industrial Average indices both ended the week down 0.9%, while the tech focused NASDAQ Composite fell 1.2%. Despite the risk-off tone, the higher beta small-cap stocks performed in-line with large-cap stocks. In terms of style, large-cap value stocks outperformed large-cap growth stocks. The best performing sectors were telecom and utilities, which were the only sectors posting a gain for the week. The worst performing sectors were materials and consumer discretionary.

CORPORATE BONDS

- Issuance continued very slowly in the investment grade corporate market. Total issuance for the week was expected to be $5-$10 billion, but did not even breach $3 billion. The most notable deal of the week was a three-tranche deal issued on Tuesday by New York Presbyterian Hospital. The deal had much longer maturities than most, with a 20 year, 40 year, and 100 year issue. The deal was over five times subscribed in the two shorter maturities, bringing pricing 20-25 basis points inside of initial price talk. Bonds tightened marginally on the break.

- In corporate news, investment managers are averaging corporate bond holdings of 36.4%, a record from the last five years. The Corporate Index Option-Adjusted Spread (OAS) finished the week at +148, eight tighter on the week (but note this was Thursday evening, so it does not account for the 10 basis point move wider in spreads after the Brexit vote). Overall metals/mining were flat; energy was also unchanged. Senior financials were 15 wider and subordinated were 10 wider. Industrials and utilities were unchanged.

MORTGAGE-BACKED SECURITIES

- The surprise adverse results from the British referendum on the European Union rattled global markets. The United States 'safe haven' status was on full display as yields plummeted to three year lows.

- Agency mortgages struggled versus US Treasuries as prices rose but failed to keep pace. Pass-through spreads were wider by five-to-seven basis points in the heaviest trading of the year. The sector, however, performed better than expected when factoring in the spike in volatility. Some of the gains (relative to expectations) was driven by capital flows to US 'safe haven' assets that carry higher yields (e.g. agency mortgages). Looking forward, the sector is vulnerable to underperformance assuming primary mortgage rates decline consistent with the move in the secondary market. As shared in previous writings, the mortgage market is close to full throttle on a refinance event.

- For the week, the 30-year current coupon versus the 10-year US Treasury widened by four basis points to 85 basis points. According to Freddie Mac, the 30-year mortgage rate showed its sticky side with no change at 3.56%.

ASSET-BACKED SECURITIES

- Brexit discussions are dominating the day. The central point of agreement is that bid-to-offer spreads are wider across the boards. That said, buyers appear to be waiting for an opportunity to buy on weakness. Fortunately or unfortunately, this situation may not be resolved for a few weeks. It usually takes new issuance to determine market clearing levels in size, and next week is quarter end which means little to no new issuance. The following week includes the Fourth of July, so that could be another excuse to wait.

- On more certain ground, the S&P/Experian default index was released this week with the composite reaching historical lows for the series. First mortgages were the strongest component, also at historical lows. Credit cards and autos are slightly off of historical lows, but it does appear that the best days are in the rear view mirror.

MUNICIPAL BONDS

- Market action in the municipal market was muted for much of the week as markets digested Janet Yellen's testimony and prepared for the UK referendum. As a result, municipal yields were pressured modestly higher. The majority of the focus and trading volume occurred in the new issue market as the modest calendar contained a number of highly visible issuers. The week also offered some much welcomed taxable issuance that was heavily bid and re-priced to lower yields.

- The market continues to be supported by a strong technical backdrop as continued flows into municipal bond funds have easily digested new issuance. As we enter the summer month period of seasonally low new issuance, we expect municipal yields to remain compressed and the slope of the curve to remain near all-time flat levels.

- It has become increasingly likely that the Congressional legislative solution to provide relief to Puerto Rico will not come in time for a $1.9 billion July 1st debt payment. This comes as debt restructuring negotiations broke down and fresh lawsuits were filed by hedge funds earlier this week. The Puerto Rico saga continues to have minimal impact on the broader market despite commanding the majority of headlines and media coverage.

HIGH-YIELD BONDS

- The BofA Merrill Lynch BB/B cash pay constrained index was up +1.13% this week as spreads tightened by 35 basis points to an option-adjusted-spread of +460 basis points. The BofA Merrill Lynch BB/B index that excludes utilities and energy was up +1.05% for an OAS of +444 as the spread of that index tightened by 34 basis points. The BofA Merrill Lynch Euro BB/B constrained index was up +0.82% as the spread of that index tightened by 25 basis points for an OAS of +393.

- High-yield moved higher and tighter this week with most of the positive price action seen on Monday as polls began to favor the stay camp in the imminent Brexit vote. Monday saw the only new issuance for the week and secondary volumes were somewhat muted due to the usual summer slowdown, but also worries over the outcome of the aforementioned Brexit vote.

- The high-yield returns in this write-up for the week do not include the volatility and dramatic risk off move for markets on Friday after the unexpected voting result to leave the EU by Britain. The most liquid indicator of sentiment for high-yield credit, the Markit High-Yield North American credit default swap index or HYCDX26 trade lower by 1.60% as it widened by 35 basis points by mid-day on Friday.

- Secondary volumes in high-yield lagged the year-to-date daily average of $12.9 billion as $10.9 billion traded on Monday and $11.4 billion on Tuesday. Much of the activity this week was position squaring ahead of the vote as many investors seemed content with their overall portfolio compositions.

- The sole new issue of the week was a $1.35 billion deal by AmeriGas Partners that was equally split between 8 and 10-year Ba3/BB rated senior unsecured notes. The King of Prussia, PA- based propane gas distributor priced the 8-year note at a spread of 409 basis points to yield 5.625% and the 10-year notes at a spread of 420 basis points to yield 5.875%. Proceeds are being used to finance tender offers for existing shorter-dated notes. Final pricing was 25 basis points tighter than initial guidance, and the new notes saw a lukewarm response when freed to trade and secondary trading levels stayed close to new issue pricing.

INTERNATIONAL MARKETS:

GLOBAL BONDS AND CURRENCIES

- The UK's referendum on its membership of the European Union was the primary driver of world bond and currency markets this week. In the run-up to the referendum on Thursday 23 June, opinion polls favoring a "remain" vote led to a rise in risk appetite, which resulted in higher government bond yields, a rally in equity markets, a tightening in credit spreads and a recovery in sterling. The result of the vote to leave the European Union therefore came as a surprise to markets, with a renewed flight to safety: UK gilt and other core government bond market yields declined sharply, peripheral European government bonds underperformed, credit spreads widened across the board (particularly for financials and lower-rated bonds), while the US dollar, the yen and the Swiss franc rallied sharply, and sterling fell to its lowest level since 1985. UK gilt yields out to 10 year maturities fell by 30 basis points (bps) overnight on the referendum result, while sterling fell from $1.50 to $1.35, before recovering to $1.38 later in the day. 10-year Bund yields fell by 16bps on the day to a new historical low of -0.07%, while similar maturity Swiss government bond yields were down by 12 bps to -0.55%. In sharp contrast, Italian and Spanish government yields rose by 13bps as investors began to assess the potential contagion risk resulting from the UK's exit.

- In the currency markets, the euro ended the week 2% weaker versus the US dollar, sterling ended 2.4% down versus the euro and over 4% versus the US dollar. The traditional safe-haven currencies (the Swiss franc and the yen) closed the week approximately 1.5% higher versus the generally-strong dollar.

EMERGING-MARKET BONDS

- In the week through Thursday, June 23, emerging market (EM) dollar-pay spreads tightened 32 basis points (bps) to 379 bps over US Treasuries, while local debt yields fell 11 bps to 6.42%. EM currencies were stronger against the US dollar, led by the South African rand (+6.5%), Colombian peso (+4.1%) and Brazilian real (+3.9%). Nigeria was the exception, as an overdue decision to abandon the country's pegged exchange rate regime saw an initial 30% devaluation of the naira.

- Although too early to assess the full impact of the UK's decision to leave the European Union (EU), initial market reaction on Friday, June 24 saw EM currencies selling off 1-4% versus the US dollar. Moves in Asian and Latin American currencies were relatively mild, while the reaction was stronger among EU-linked countries like Poland and Hungary. Spreads on dollar-pay bonds widened roughly 20-25 bps, driven largely by lower US Treasury yields.

- Monetary policy was in focus, particularly with the somewhat surprising announcement that Reserve Bank of India Governor Raghuram Rajan would be stepping down in September, at the end of his first term. Typically, governors' terms are extended for an extra cycle, but it appeared that politics played a role in Rajan's departure as supporters of the ruling party did not take well to his willingness to speak out on topics beyond monetary policy. Early market reaction to the news was subdued, given expectations for India to sustain its favorable economic trajectory.

- In Colombia, the central bank hiked the overnight lending rate by 25 bps to 7.5%, in line with consensus. The monetary policy committee signaled that the move could be its final of this tightening cycle, which has seen 300 bps in cumulative hikes to offset high inflation and current account pressures. The National Bank of Hungary matched expectations by leaving the base rate on hold at 0.9%, but noted that it was prepared to use unconventional tools if inflation undershot its target.

- The Central Bank of Turkey continued its gradual path to monetary policy simplification by cutting the overnight lending rate (the upper end of its policy corridor) by 50 bps to 9.0%, and highlighting the recent deceleration in core inflation. In Thailand, the monetary policy committee was on hold at 1.5%, balancing slow growth against a desire to maintain space for further easing in the event of added external shocks. The Philippines' central bank also left its policy rate unchanged at 3%, maintaining its view for contained inflation and solid growth prospects.

HIGHLIGHTS OF NEXT WEEK'S ECONOMIC RELEASES

Date	Report	Consensus	Last
06/27	(US) Markit US Composite PMI	--	50.9
	(US) GDP Annualized QoQ	1.00%	0.80%
	(US) Personal Consumption	2.10%	1.90%
	(US) S&P/CS Composite-20 YOY NSA	5.41%	5.43%
06/29	(US) PCE Core MoM	0.20%	0.20%
	(US) PCE Core YoY	1.60%	1.60%

	(JN) Industrial Production YoY	1.90%	-3.30%
06/30	(GE) Unemployment Claims Rate SA	6.10%	6.10%
	(UK) GDP QoQ	0.40%	0.40%
	(UK) GDP YoY	2.00%	2.00%
	(IT) CPI EU Harmonized MoM	0.20%	0.30%
	(CA) Industrial Product Price MoM	0.30%	-0.50%
	(JN) Natl CPI YoY	-0.50%	-0.30%
	(JN) Natl CPI Ex Fresh Food YoY	-0.40%	-0.30%
07/01	(JN) Natl CPI Ex Fresh Food, Energy YoY	0.80%	0.90%
	(EC) Unemployment Rate	10.10%	10.20%
	(US) Markit US Manufacturing PMI	--	51.4
	(US) ISM Manufacturing	51.5	51.3
	(US) ISM New Orders	--	55.7
	(US) Wards Total Vehicle Sales	17.30m	17.37m