

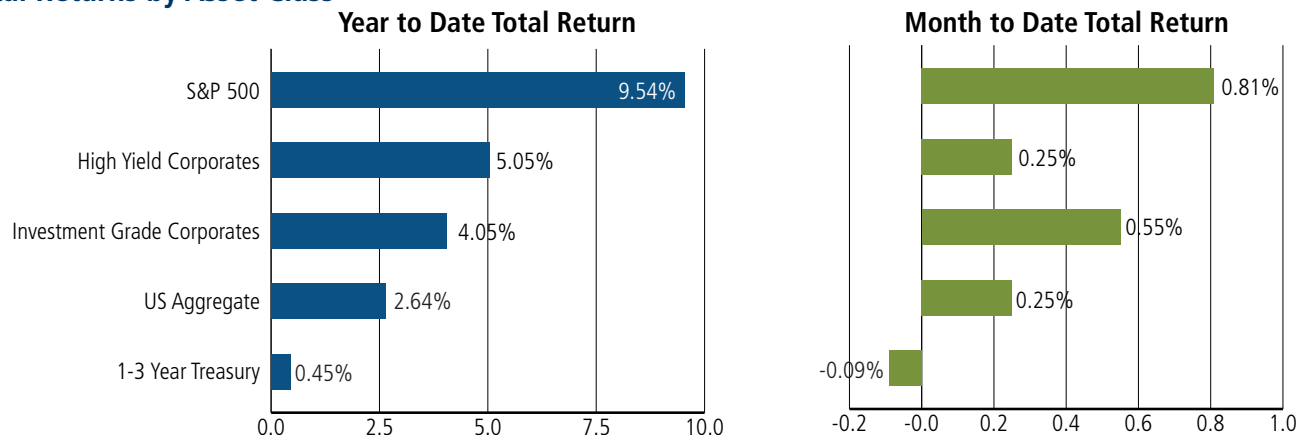
Week Ending June 16, 2017

## The Bank of England... A House Divided?

### Economic Overview:

The Bank of England surprised markets this week, adopting a hawkish tone. The reason for the incipient worries that rates might need to move higher in Britain? Higher inflation. [In London the FTSE 250 stock index dropped -2.11% on the news](#), the largest daily down-move seen in 2017 and well below the average daily change this year. But we don't think investors should read too much into the hawkish BoE rhetoric. First, while consensus typically rules on the monetary policy committee (MPC), only 3 members felt the bank should move the policy rate off the 0.25% level. Second, weakness in the pound is the likely culprit behind much of the pick-up in inflation. Unless the pound sterling keeps falling, we think the inflation data will normalize. The Bank of England's tone may have shifted, but any changes to their extraordinarily easy monetary policy are likely to come slowly.

### Total Returns by Asset Class



### Highlights of the Week:

- **Treasuries:** Treasuries rallied 10 bps on the long end with the weaker CPI report which was released just prior to the June FOMC hike. The 5/30s curve flattened to 102 bps, the lowest since the recession era, on the back of continued talk of 3 total Fed hikes in 2017 and 3 hikes in 2018. The Fed also described the balance sheet roll off process in more detail, suggesting that it would start some time later this year at a moderate pace. Markets are pricing only a 50% chance for another hike in 2017 and 1 hike only for all of 2018.
- **Corporates:** The IG Corporate market has seen two weeks in a row of sub \$20 billion of issuance in the primary market. This has only happened three times year-to-date. The secondary market has benefited from the light calendar with the OAS tightening by one basis point, closing the week at 112. Next week is rumored to be a busy week with a potential M&A slated.
- **Equities:** The U.S. Equity Market fell for the second consecutive week on weaker economic growth prospects and further profit-taking within the Tech sector. The risk-off tone persisted for most of the week despite news hitting Friday that Amazon.com has agreed to acquire Whole Foods Market for \$13.7 billion in an all-cash deal, which would be the largest M&A deal this year.
- **Emerging Markets:** In Brazil, the country's electoral court voted 4-3 against declaring the 2014 presidential ticket null due to electoral finance irregularities. This decision will allow President Temer to remain in office despite the recent release of audio recordings suggesting he was aware of and did nothing about far-reaching corporate corruption.
- **Securitized Products:** ABS issuers are lining up en masse with at least thirteen deals in the queue. Collateral types include prime and subprime auto loans, shipping containers, time shares, dealer floorplans, whole business, trade receivables, secured and unsecured consumer installment loans, and more. Appetite for ABS was brisk this past week with Dominos, Upstart and LendingClub getting fantastic execution from an issuer standpoint.
- **High Yield:** Among BB-rated bonds, investors can add ~110 basis points of yield with a pick-up of ~50 basis points of spread by extending from the 3-5 year to the 7-10 year part of the curve. Of course, not all issuer curves are created equal and some offer insufficient yield to compensate for increased duration risk. However, in the current environment, extending maturities within high quality credits offers an attractive source of risk-adjusted yield.
- **Currencies:** The Canadian, Australian and New Zealand dollars were amongst the top performing G10 currencies this week supported by a combination of U.S. dollar weakness and positive domestic data. The Canadian dollar gained the most and rose by nearly 1.6% after surprisingly upbeat comments from the Bank of Canada. The policymakers sent unequivocal signals to the market that Canadian interest rates are likely to start rising, possibly as early as next month. If these expectations materialise, Canada will be one of the first economies to depart from the extremely accommodative stance adopted by most developed economies.

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