

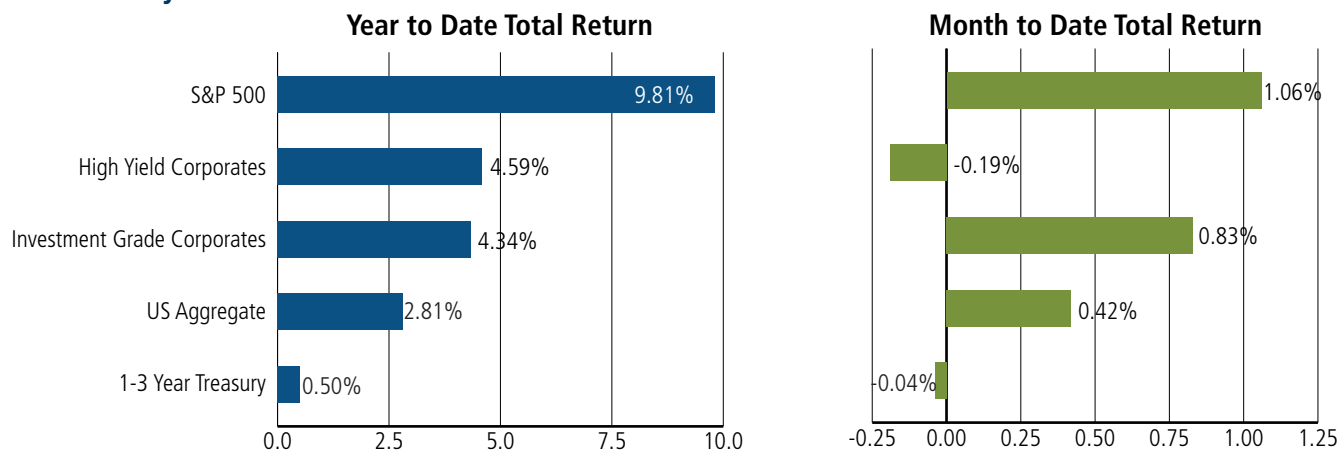
Week Ending June 23, 2017

David and Goliath Roil the Oil Market

Economic Overview:

Another week, another set of headlines on oil prices. Crude oil prices are 20% off their recent peak. [Our chart of the week draws inspiration from the headlines but looks at the underlying changes in the global oil market during the past decade.](#) Since 2010, production has increased continually despite efforts on OPEC's part to cut supply. Among the driving forces behind the supply glut is the United States. Indeed the United States has accounted for the lion's share of the increase in production since 2010. In the past 7 years, OPEC production increased 11% while U.S. production has gone up 73%, accounting for more than half of the increase in production. In the oil market, David is taking on Goliath and having an outsized influence on prices.

Total Returns by Asset Class



Highlights of the Week:

- **Treasuries:** Treasuries were held captive to a slow economic week and no treasury supply. Fed speakers returned but did not say anything to alter/counter the prior week's FOMC hawkish rhetoric. The curve flattening continued unabated with 5/30's reaching new 10 year lows at 95 basis points. Futures markets are now pricing an 85% chance the Fed manages only 1 rate hike throughout 2018.
- **Corporates:** Oil continued to sell off this week placing the lion's share of the market's attention on the energy sector. Oil hit \$42.53, the lowest levels since April 2016. High-beta energy widened 20 basis points on the week, while lower-beta widened 5 to 10.
- **Equities:** The U.S. Equity Market climbed modestly higher in a relatively quiet week of trading. Tech stocks led the market, bouncing back strongly after a few weeks of investor profit-taking. Health care stocks also surged higher for the week as Trump's administration is expected to deemphasize regulating drug prices and focus on relaxing current regulations.
- **Emerging Markets:** Argentina managed first quarter GDP growth of 0.3% year-over-year (y/y), beating projections for a 0.1% expansion. The reading was the first positive annual figure since Q1 2016, as the country has been slowly emerging from recession. On a quarterly basis, rising investment and improving private consumption supported growth.
- **Securitized Products:** All fourteen new issue ABS deals this week priced at or through the tight end of initial price guidance displaying significant demand for all collateral types, ratings, and maturities. Likewise, the CLO market was very active with a number of new issue, refi and reset deals pricing. Clearly, many issuers shared the same idea of front running quarter end and Fourth of July week since the forward calendar is light for ABS next week.
- **High Yield:** Oil officially entered a bear market after prices fell more than 20%. However, in spite of weaker commodity prices, distress risk for many high yield energy issuers is remote. Issuer balance sheets and maturity schedules allow them to continue operating for several years at lower oil price levels.
- **Currencies:** After the Bank of Canada last week, the Reserve Bank of New Zealand (RBNZ) was the latest central bank to surprise the markets with more hawkish comments than expected. At the latest policy meeting on Thursday, the RBNZ left the interest rates unchanged but, contrary to expectations, sent no signals to the market that the New Zealand dollar might be over-priced. This marked a departure from the recent rhetoric and supported the kiwi dollar, which was the best performing major currency this week.
- **Municipals:** Municipal bond funds realized the second largest weekly outflows YTD, with investors withdrawing \$891 million. However, the trend remains positive, with YTD weekly average inflows of \$255 million and over \$5 billion cumulatively added thus far. Investor demand is expected to remain strong during the summer months, as coupon & maturity payments are projected to outpace supply by nearly \$40 billion in June through August.

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