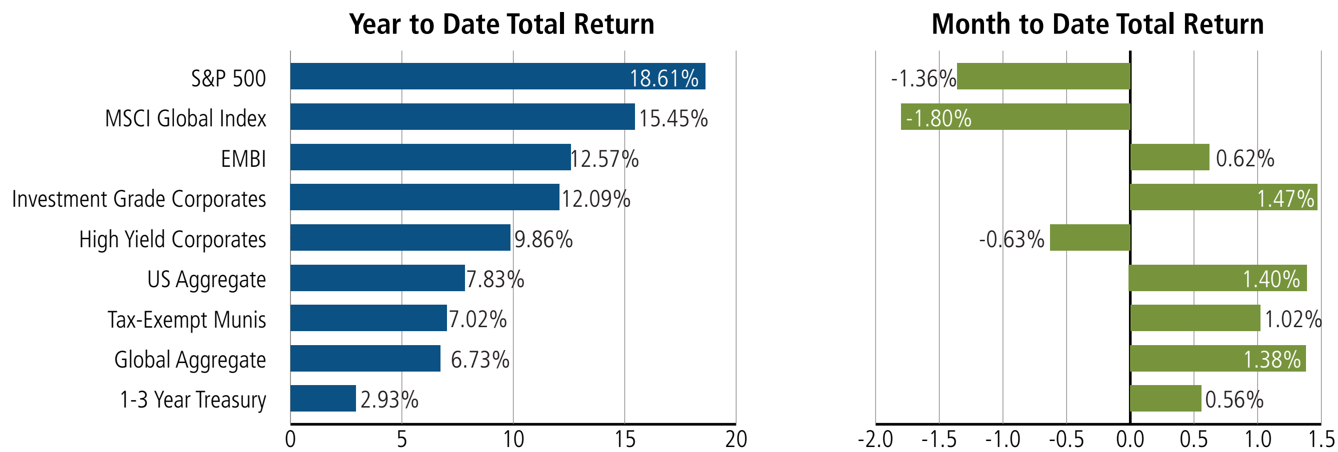
Week Ending **August 9, 2019**

Economists: Gross Context Added

Economic Overview:

Economists are bad at forecasting as most forecasts simply extrapolate current trends. What then is the use of economists? (Trust us, our traders often wonder). We provide much-needed context. This is particularly true when markets swoon and emotions run high. Both equity and rates markets swooned this week as global trade tensions escalated (the Chinese RMB weakened above the magic number 7). Economic bears like to highlight continued weakness in global manufacturing data as a key indicator of a worsening global economy. Here's the context: manufacturing accounts for just 16% of global output. Even manufacturing powerhouses like Germany depend more on services and less on the goods sector. Moreover, services sector activity gauges across the world still point to growth. Finally, it is not uncommon to see volatile swings in the goods sector. However, it does not follow that all manufacturing swings lead to recessions. The opposite is true. Remember 2016? Forecasts often fail, but the critical context (we hope) calms.

Total Returns by Asset Class



Highlights of the Week:

- **Currencies:** As the likelihood of a trade deal between the U.S. and China faded earlier this month, trade wars were swiftly replaced by currency wars. The latest move came from Beijing on Monday as the government allowed the Chinese renminbi to reach its weakest level against the U.S. dollar since the global financial crisis. The lower rate is expected to offset some of the cost of the tariffs imposed by Washington but is also reflective of the slowing economic growth in China over the recent months.

- **Corporates:** Market volatility continued this week as rates rallied and spreads widened. New investment grade issuance was strong, seeing $39 billion from 24 issuers. Occidental Petroleum came to market with a ten tranche $13 billion deal to help fund their purchase of Anadarko Petroleum. This is the fourth largest deal of the year behind IBM, Bristol Myers, and Anheuser-Busch InBev who issued $20 billion, 19 billion, and $15.5 billion, respectively.

- **Securitized Products:** Sure, the Dow dropped 767 points on Monday as the biggest news of the week, but the bigger news is that 10-year Treasuries dropped 17 basis points week over week. For you and I, that means mortgage rates are going to fall, and we'll have an opportunity to refinance the mortgage. From Bankrate.com the 30 year national average rate is 3.81, so be patient and shop around. Better rates can be found.

- **High Yield:** The ICE BofAML U.S. Cash Pay High Yield Constrained Index yielded 6.0% to worst at the end of July, but bonds that actually trade at that yield are hard to find. More than 40% of the universe yields less than 4.5%. On the other hand, sectors exposed to commodity and trade risk are trading at much wider yields but with a correspondingly higher risk of loss. In this environment, prudent security selection is critical to navigating the high yield asset class.

- **Municipal:** Municipal mutual funds received another $4.7 billion in inflows this week, according to Lipper, the third highest amount on record and marking the 31st consecutive week of inflows. This rampant demand for municipals is a boon for issuers. In the largest municipal health care deal ever sold, BBB-rated CommonSpirit Health had no problems raising $6.2 billion in the market this week, attracting over $40 billion in orders in a yield-hungry market.

- **Equities:** The U.S. equity market fell for the second consecutive week as the U.S.-China trade dispute escalated further. Equities fell by nearly 3% on Monday (the worst daily performance this year), but continued to show their resilience after recovering most of those losses by the end of the week. Sector performances also showed a risk-off tone with real estate and utilities posting the best returns, while financials and energy posted the worst returns.