

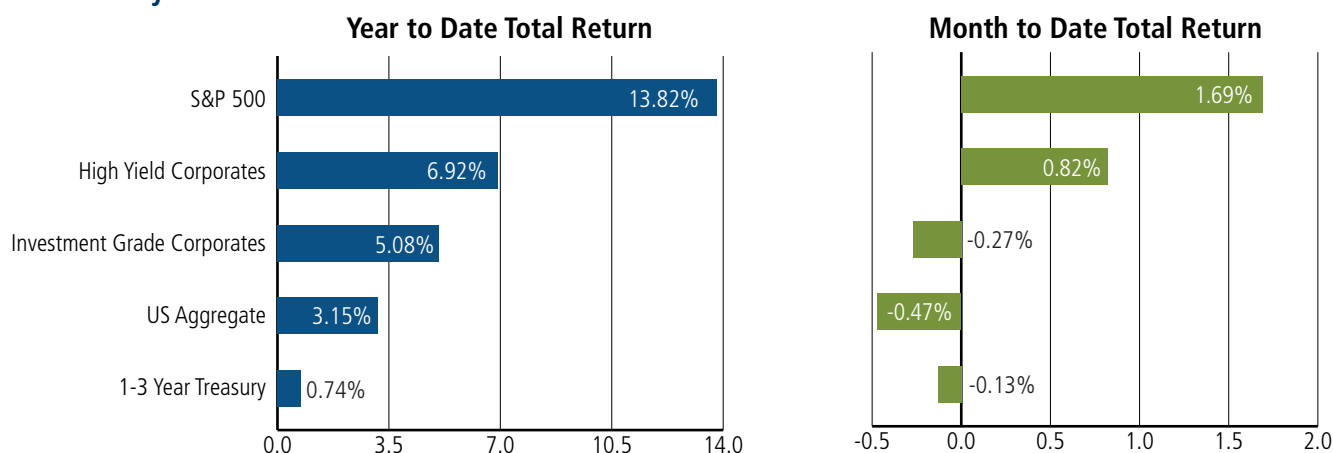
Week Ending **October 10, 2017**

Do Not Feel SAARy for the Economy

Economic Overview:

For years economic bears have pointed to elevated auto sales as strong evidence that the U.S. economy was late in the cycle. [This week we learned U.S. consumers brought more vehicles during the month of September than any other month since 2005.](#) The jump in sales surpassed the 2016 numbers when investors warned that we had seen the “peak” in the demand for automobiles. While impacts from recent hurricanes resulted in more purchases, the number blew past expectations—the highest number forecasted on Bloomberg before the data release was 17.6 million. The actual number was almost 1 million more than that (18.5 million). So, if you are feeling SAARy for the U.S. economy, it needs not your pity.

Total Returns by Asset Class



Highlights of the Week:

- **Treasuries:** The most anticipated economic data series in the U.S. rates market is the monthly employment number. The September data, released today, showed 33,000 less workers on U.S. payrolls. The markets largely dismissed the headline number due to the disruptions from hurricanes Harvey & Irma. What is not being dismissed are gradually increasing wage pressures and a drop in the unemployment rate to 4.2%, the lowest since 2001. The markets are now more expectant of a rate increase later in the year. Rates increased for the week a rather modest 2-3 basis points across the curve.
- **Corporates:** Over the week corporate spreads continued to grind tighter as low issuance totaling just \$12 billion left investors wanting more. Now the option adjusted spread on the 1-30 year Bloomberg Barclays Corporate Index is inside of 100 basis points, the tightest spreads have been since mid-2014. Amid the Catalan crisis, Spanish banks saw spreads widen only marginally, especially given the market's focus on the developing story.
- **Emerging Markets:** S&P upgraded El Salvador from 'Selective Default' to 'CCC+' after the country's legislature passed a pension reform that would reprofile its pension debt (CIP). The reform was a rare demonstration of political unity in El Salvador and, as part of the agreement, will allow the liquidity-constrained government to raise additional financing.
- **Securitized Products:** Jeopardy question of the day: What does it take for an ABS deal to NOT successfully clear today's hot marketplace? Answer: Caribbean Financial Group 2017-1 backed by unsecured consumer loans in the Caribbean. Which begs the next question: What is the greatest concern for investors? Answer: Geopolitical risk, according to a recent Morgan Stanley survey, yet 43% of respondents expect to increase their allocations to securitized products.
- **Currencies:** The UK pound may have been the best performing G10 currency in September, but the strong performance quickly took a turn at the start of October. The reason was a disappointing speech by Prime Minister May at the Conservative Party conference this week, which raised serious questions about the future of the party and her continued leadership. Combined with the on-going uncertainty over the course of the negotiations with the European Union, this pushed sterling to a fresh 4-week low against the U.S. dollar, thus erasing all of the pound's previous gains.
- **Municipal:** As Treasuries sold off, investors digested the GOP tax reform blueprint, and President Trump suggested Puerto Rico's debt should be "wiped out." Municipal bond funds experienced \$140 million in outflows—the first weekly outflow in almost three months.
- **High Yield:** Spreads for the BB/B component of the U.S. high yield universe are at post-crisis tight, but headline risk levels mask dispersion across underlying sectors. Spread dispersion indicates that, rather than buying everything that isn't bolted down, investors continue to demand discounted prices for sectors and issuers that face fundamental challenges.
- **Equities:** The U.S. Equity Market posted its fourth consecutive weekly gain as the prospect for tax reform continued to boost investor sentiment. With the exception of Friday's modest weakness, the positive tone held for most of the week with the S&P 500 posting new record highs for six consecutive days. The best performing sector for the week was consumer discretionary, led by auto and airlines companies, while the worst performing sectors were telecom and energy.