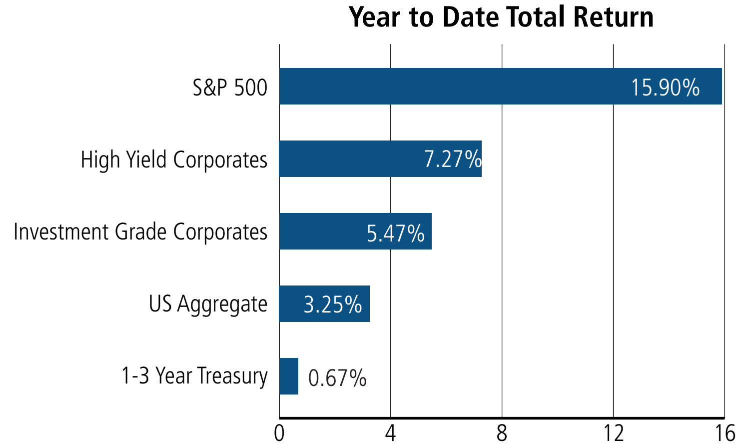
Week Ending **October 13, 2017**

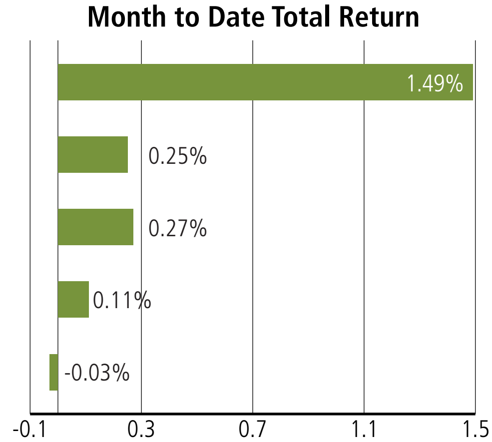
A Job for Everyone (Who Is Unemployed)

Economic Overview:

Wednesday this week was a big day for macroeconomic events. First, the Federal Open Market Committee (FOMC) released the minutes of its September meeting. Second, the Bureau of Labor Statistics released the latest Job Openings and Labor Turnover Survey (JOLTS) data. While the Fed minutes agonized over low inflation, FOMC participants need not look any further than the JOLTS job openings data to justify further rate increases by the end of the year. In the month of August, the number of unemployed people for each job opening approached all-time lows. In fact, looking at the 3-month moving average, the U.S. economy has reached the lowest number of unemployed people for each job opening on record at 1.15. With continued tightening of the labor market and a strong U.S. economy, the Fed's slow and steady hiking pace seems appropriate.

Total Returns by Asset Class





Highlights of the Week:

- **Treasuries:** Treasuries awaited the Sept FOMC minutes, CPI and retail sales this week for further clues on inflation. Even though estimates were expected to be distorted (higher) due to the hurricanes, the numbers fell short yet again. The recent increase of short positioning added a tailwind along with the decent auctions, moving yields 8-10 bps lower from the belly of the curve on out. The 5/30's curve hit a 10 year low while market probabilities continued to increase for a December rate hike to approximately 75% with 1.5 hikes now priced in for 2018.
- **Corporates:** New issue supply continues to prove steady with roughly $30bn coming to market this week, led by Wal-Mart, Broadcom, and Northrop Grumman. Corporate Spreads are unchanged on the week at +98 basis points and still hovering near the tights since the crisis.
- **Equities:** The U.S. Equity Market posted gains for the 5th consecutive week as the prospect of tax reform and stronger corporate earnings growth underpinned the market's current positive sentiment. Earnings season kicked off this week with a positive tone as megabanks JPMorgan, Bank of America, and Citigroup all reported better-than-expected quarterly results. Next week will be busy as we get 58 S&P 500 companies reporting 3rd quarter results.
- **Emerging Markets:** The Mexican peso (MXN) was the worst performing currency on the week (-2%) and on the month (-6.6%). Some of this is attributed to NAFTA renegotiations between Canada, the U.S., and Mexico. The fourth round of negotiations commenced this week amidst heightened rhetoric coming from the United States. Internal political noise in Mexico also contributed to currency dynamics, with Margarita Zavala, the wife of former-President Calderon, announcing she would split from the political party PAN and run independently.
- **Securitized Products:** Doesn't it feel like the holiday season comes earlier and earlier each year? Well, next week is shaping up to be one of the busiest of the year as ABS issuers attempt to beat the holiday season. Looking for a laptop? Dell is doing a deal. A car perhaps? BMW lease and CarMax will help. Credit not so hot? Santander's Drive and Credit Acceptance are there to assist. Heavy supply is being met by heavier demand.
- **Currencies:** The Mexican peso fell to its weakest level in more than four months as round four of the lengthy NAFTA negotiations kicked off. Despite the broad rebound in emerging market currencies this week, the Mexican peso continued to underperform as markets reassessed the probability of an adverse outcome from the negotiations for the export-reliant country.
- **Municipal:** California 30-day visible supply for newly issued bonds currently stands at approximately $4.5 billion, the highest since March 2016. It appears this wave of supply will easily clear the market as demand far outweighs supply. Meanwhile, after a brief pause on the release of President Trump's tax reform outline, municipals have resumed their march higher and continue to attract inflows to mutual funds.
- **High Yield:** High yield BB/B spreads are at post-crisis lows on the back of improved fundamentals and a strong bid for income globally given the lack of options. Although asset class-level valuations appear tight relative to historical levels, market participant discipline has largely remained. For example, only 2% of new issuance this year has been used to fund leveraged buyouts versus 37% in 2007.