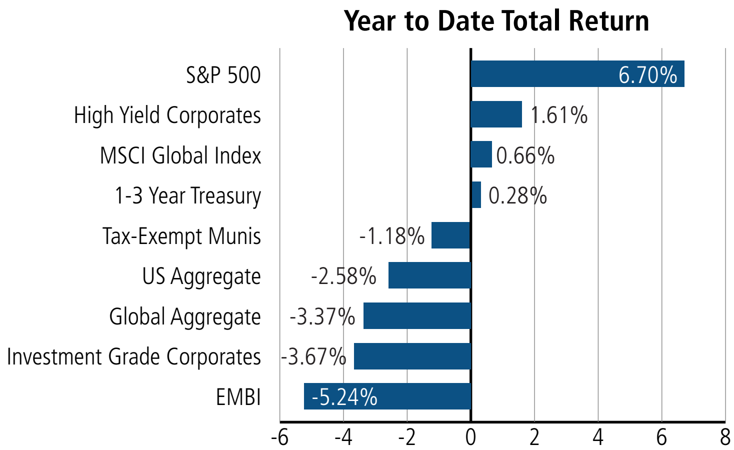
Week Ending **November 9, 2018**

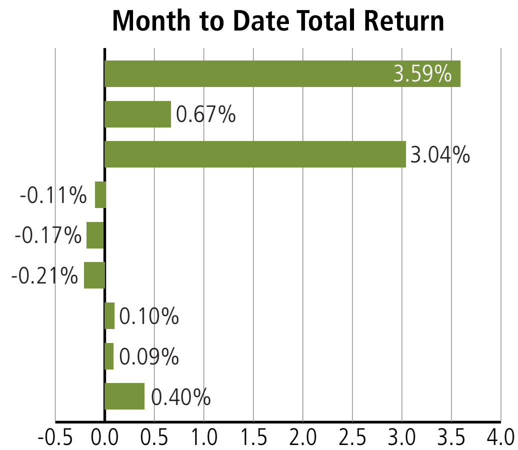
The NGDP "Wave"

Economic Overview:

The U.S. midterm elections and talk of electoral "waves" dominated investor attention this week. We suspect another wave will ultimately matter more for markets though. U.S. nominal GDP, which is calculated using market prices and includes the impacts of inflation, accelerated to 5.5% year-over-year as of Q3 2018—the fastest pace of growth since 2006. It's no wonder then that the 10-year yield on U.S. Treasury bonds has also moved up to 3.2%, the highest level since 2011. Whatever you see on the news about the relationship between the midterms and the market, remember that the underlying current of the U.S. economy will drive markets over the long run. In the words of the U.S. Federal Open Market Committee this week, "Economic activity has been rising at a strong rate." Is a higher crest in interest rates on the horizon?

Total Returns by Asset Class





Highlights of the Week:

- **Emerging Markets:** In ratings news, Mongolia was upgraded to 'B' by Standard and Poor's; the country outlook is stable. In its press release, S&P noted that fiscal performance had improved dramatically in the context of healthy GDP growth (a forecasted 5.6% y/y annually through 2021).

- **Currencies:** The New Zealand dollar was the strongest major currency this week on the back of a number of bullish catalysts. A combination of stronger than expected domestic jobs report, more upbeat rhetoric from the Reserve Bank of New Zealand (RBNZ) and easting trade tensions between China and the U.S. underpinned the kiwi dollar. While the odds of a rate cut by the RBNZ over the next few months may have reduced, the reinforced expectations of further rate hikes by the Fed are likely to weigh on the antipodean currency in the near term.

- **Corporates:** Foreign issuers returned to the U.S. Investment Grade market this week with U.K Banks, Volkswagen, and Baidu issuing in the primary market a total of $13 billion. Volkswagen was of interest, printing $8 billion across maturities for general corporate purpose. That's the same amount as Dr. Pepper brought to fund its purchase of Keurig, which is the 10th largest deal of the year so far.

- **Securitized Products:** After a brief pause of volatility after the mid-term elections, market turbulence is back. Spreads drifted wider across securitized markets moving closely with equity market movements and direction of interest rates. Despite a favorable benign prepayment report, agency mortgage trailed U.S. Treasuries with wider spreads as the Fed steps away from support. Ginnie Mae mortgages also suffered from concern that banks will have less appetite for high quality assets due to relaxing capital requirements.

- **High Yield:** After posting its worst monthly return in nearly three years, the BB/B component of the high yield spectrum is ripping back in November. "Buying the dip" isn't always the right strategy in high yield, but it has certainly worked well in 2018.

- **Municipal:** While municipal mutual funds have posted seven consecutive weeks of outflows, we're optimistic on the near-term performance of municipals. With Tax Reform 2.0 likely off the table as a result of the midterm election results, the tax-advantaged status of municipals remains as valuable as ever, and winter is coming, which historically includes the lightest months of issuance.

- **Equities:** The U.S. equity market rallied for the second consecutive week as the U.S. election results met market expectations. However, equities closed the week off their highs with macro concerns over global growth, Italy, and lower oil prices weighing on investor sentiment. With the exception of the communication sector, all other sectors posted positive returns with health care and real estate the market leaders.