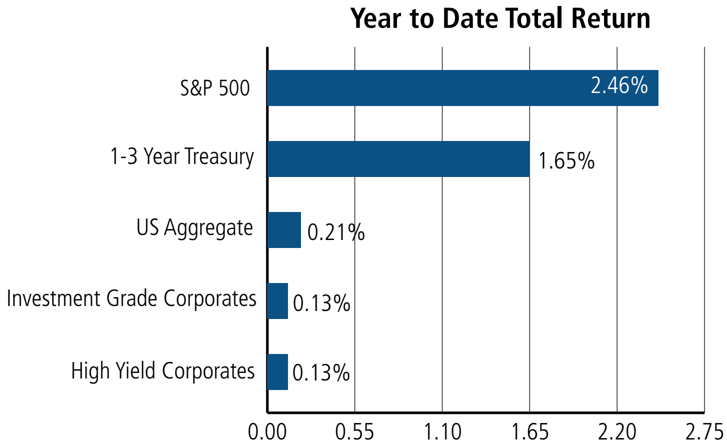
Week Ending **February 3, 2017**

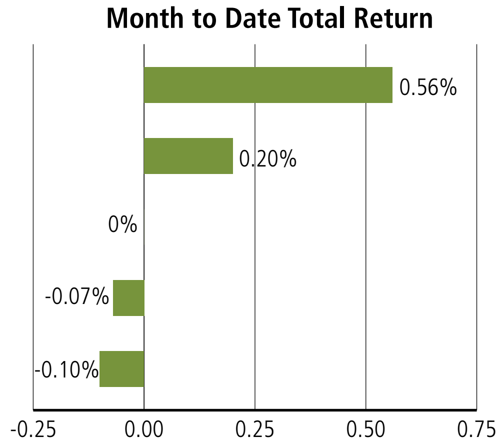
Getting Back To Work

Economic Overview:

Data from the Bureau of Labor Statistics released on Friday showed the U.S. added 227,000 net new jobs in the month of January. Relative to expectations, top-line job growth surprised to the high side and continued to impress. The 3-month moving average is 183,000—a good sign for economic growth, stocks, and credit. However, the labor force participation rate ticked up to 62.9% up from 62.7% in December—and up from its cycle low of 62.3% in 2015. With more workers in the labor force, the unemployment rate (UR) rose, to 4.8% from 4.7%, which kept a lid on wages. January's jobs report bolsters the view that the cycle still has plenty of room to run and that the Fed can still afford to move slowly. Slowly, not because the economy is weak, but because there are few signs of "overheating" or of "being behind the curve." We are looking for signs/talk/concerns of inflation "heating up" before we get too worried about a more aggressive Fed.

Total Returns by Asset Class





Highlights of the Week:

- **Treasuries:** Treasuries traded within a 10 bps range this week after absorbing the February more dovish FOMC and the stronger nonfarm payroll number. March rate hike probabilities dropped to approximately 30% from over 35% with no mention at the meeting of changes to reinvestment on their balance sheet and lower average hourly earnings in the nonfarm payroll report. The 5/30's curve steepened from 112 bps to 119.5 with the short end rally. Rates remain captive to Trump action and tweets as well as positioning with focus on next week's refunding and blackout period ending for fed speakers.
- **Equities:** U.S. equities climbed modestly higher for the week as some of the world's largest companies by market cap reported better than expected quarterly results. The biggest among them all is tech giant Apple, which reported quarterly earnings of $3.36 per share and revenues of $78.4 billion, beating consensus estimates of $3.22 per share and $77.3 billion. Shares of AAPL jumped over 6% on the positive news.
- **Corporates:** U.S. companies have joined hands to form the "American Made Coalition," including behemoths such as GE and Boeing. They have formed in agreed support of the Republican's proposal which includes a decrease in the corporate tax rate from 35% to 20%; a 20% import tax; and the ability to exclude export revenue from taxable income. Unsurprisingly, the support versus angst about the potential taxes falls along profit lines.
- **Securitized Products:** Single Family Rental (SFR) operators like Blackstone's Invitation Homes opportunistically snapped up cheap homes from the depths of the housing crash, while earning rental income as prices recovered. Ten years later, we see evidence that institutional SFR business models are sustainable longer term. This week, Blackstone took Invitation Homes public (ticker: INVH). And even Fannie Mae is now financing large single-family rental portfolios.
- **High Yield:** GOP control of the federal government has led to talk of corporate tax reform designed to favor companies with operations in the United States. Although the legislative outcome remains to be seen, most sectors of the U.S. High Yield universe, which are generally made up of small cap, U.S.-oriented companies, should benefit from proposed reforms.
- **Emerging Markets:** Fitch downgraded Turkey's credit rating to BB+/stable from BBB-/negative, stating that political and security developments were taking a toll on the economy and institutional credibility. Fitch joined Moody's and S&P (unsolicited), which had already moved the country below investment grade.
- **Currencies:** The Japanese yen had a volatile trading session on Friday. Early in the day, the Bank of Japan (BoJ) underwhelmed the markets by opting to increase its regular bond purchasing program by less than investors had anticipated. This sent 10-year Japanese government bond yields to new highs and the BoJ intervened later in the day by offering to buy benchmark 10-year Japanese government bonds at a fixed rate in an attempt to keep yields to its targeted level. As a result, the Japanese yen weakened against the U.S. dollar, although it managed to stabilize later in the day.
- **Municipals:** Municipal funds notched a fourth consecutive week of inflows, further bolstering the market as new issue supply has been limited. Fundamentals continue to be favorable, with only $11.6 billion of new issuance slated for the next month versus expected redemptions and calls totaling $23.2 billion.