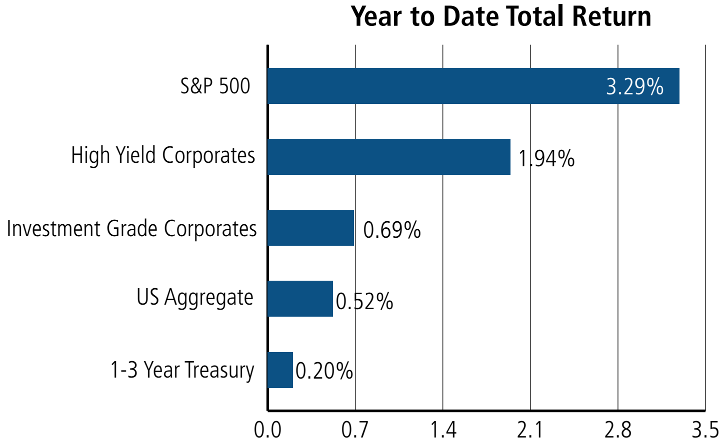
Week Ending **February 10, 2017**

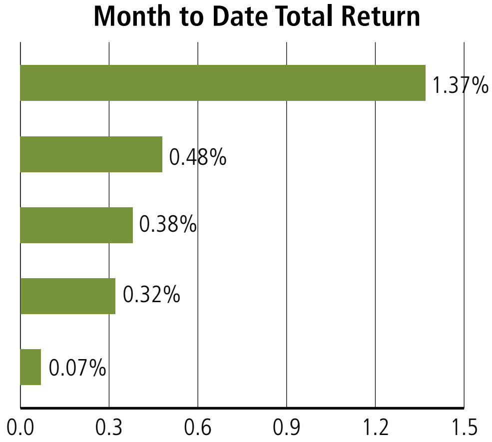
Trump, Europe on The Market's Mind

Economic Overview:

There is plenty to worry about in Europe: banks with loans wilting under the Tuscan sun, the pending economic fallout from Brexit and the risks posed by upcoming elections in the Netherlands, France, and Germany. But what if while all eyes focus on political events, 2017 holds better news on the economic front? Following the marked improvement in monthly measures of economic activity (e.g., PMIs), euro area growth forecasters seem optimistic, politics notwithstanding.

Total Returns by Asset Class





Highlights of the Week:

- **Treasuries:** With little U.S. economic data to chew on, Treasuries were held captive to Trump and Europe. A flight-to-quality bid due to European concerns (France, Greece, Nederlands, UK) as well as the lack of confidence in Trumponomics was persistent throughout the week. However, Thursday when President Trump announced they would present a "phenomenal" tax plan by the end of the month the curves re-steepened and yields backed up. Ten-year yields went from 2.5% down to 2.32% to currently trade at 2.43%. Next week presents Yellen's Humphrey-Hawkins testimony on Tuesday and Wednesday with March hike odds at only 34%.
- **Equities:** U.S. equities rallied for the week as the three major stock indices (S&P 500, Dow Jones Industrial Average, NASDAQ) posted new record highs. Optimism surrounding the new Administration's corporate tax reform and better-than-expected corporate quarterly earnings results were the main catalysts this week with Industrial and Tech companies leading the equity markets higher.
- **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:** The aftermath of the 2008-09 financial crisis is still with us but in a more positive manner. The National Credit Union Association (NCUA) is moving forward with auctions to sell non-agency mortgage-backed securities acquired from corporate credit unions that failed last decade. The NCUA used the securities to collateralize a guaranteed notes program which provided funding to stabilize the credit union system. The auctions should go well as demand is high from investors in the sector.
- **High Yield:** Since the middle of December, spreads for the BAML BB/B High Yield Bond Index have traded in a narrow range, close to their post-recession tights. In this low-volatility environment we believe investors will benefit over the long-term by focusing on quality in their portfolios.
- **Emerging Markets:** Political noise in Romania continued to generate headlines. Attempts by the country's new government to roll back prior anti-corruption efforts have backfired. Following days of protests that brought hundreds of thousands of people out on the street, the country's justice minister, a key proponent of the roll-back, bowed to opposition pressure and resigned.
- **Currencies:** The euro came under pressure this week as concerns about the future of the EU once again took centre stage. The euro started the week on a softer note following dovish comments by European Central Bank's President Draghi. However, it was the increased likelihood of a victory of far-right candidate Le Pen in the French presidential elections that sent the single currency tumbling. To top it all, renewed tension between the Greek government and the IMF over the country's next debt repayment additionally undermined the euro.
- **Municipals:** The municipal yield curve reached its steepest level in two months, with two-year versus 30-year maturities offering a yield spread of 205 basis points. The fundamental backdrop for municipals remains favorable with a $16 billion supply deficit projected over the next month and renewed inflows to funds.

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