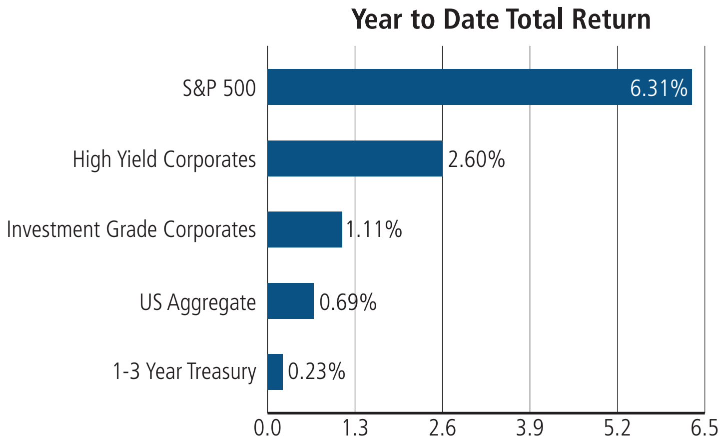
Week Ending **March 31, 2017**

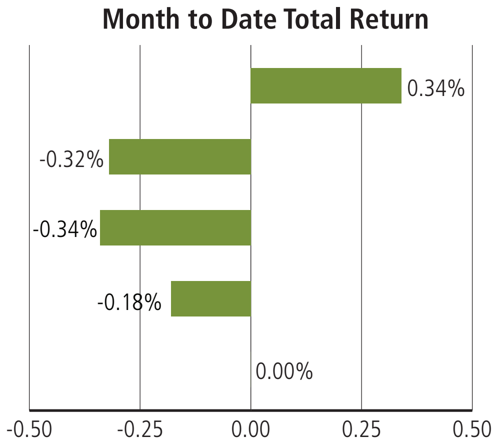
Real GDP...Is All Consuming

Economic Overview:

If you are among the select few worriers plagued by concerns about real economic growth, boy do we have good news for you. Worry not that topline economic growth in 2016 registered only 1.6%. Focus instead on consumer spending. Accounting for nearly 70% of total U.S. GDP, the legendary American consumer did not disappoint in 2016. In fact, consumer spending contributed an average of 2.4% to total GDP growth, up from 1.7% in 2015. To translate that into simple terms, in 2016, the U.S. consumer sector alone accounted for 150% of total GDP growth. The detractor? Business investment. Which will dominate in 2017? With continued strength in the labor market, our bet is that consumer spending will continue to power the U.S. economic engine.

Total Returns by Asset Class





Highlights of the Week:

- **Treasuries:** U.S. interest rates closed the week exactly where they started with very little volatility in between. The 10-year Treasury note closed at 2.41%, close to the average rate since Trump won the election (2.42%).
- **Equities:** The U.S. Equity market rallied for the last week of March as investor sentiment quickly shifted from a "risk-off" to "buy-the-dip" tone. The energy sector led markets higher with oil prices rising and bellwether ConocoPhillips announcing a deal to divest their low margin Canadian assets to strengthened their balance sheet. Shares of COP jumped more than 8% on the positive news.
- **Corporates:** This week Cenovous Energy agreed to buy $18 billion worth of Canadian oil sands property from ConocoPhillips, who has been a partner in ownership up to this point. Cenovous is going against the trend by entering the Canadian oil sands market rather than leaving it, as many of its peers have done recently (such as Royal Dutch Shell and Statoil).
- **Securitized Products:** The media portrays subprime auto as the next "Big Short". It isn't. In the years leading up to the crisis, annual subprime residential issuance was in the $450 billion area, while recent annual subprime auto issuance has been in the $25 billion area. Credit default swaps (CDS) were used heavily in subprime residential, but they do not exist in subprime auto. Furthermore, an ABX-like index for subprime auto ABS doesn't exist, so no big short here.
- **High Yield:** Fourth quarter results were positive for high yield issuers as the sector posted +3.1% year-over-year EBITDA growth, excluding commodities. As commodity prices stabilize, the outlook for asset class fundamentals remains solid. We view technically-driven corrections as opportunities to buy.
- **Emerging Markets:** In South Africa, President Zuma ousted Finance Minister Gordhan. There is concern that, in the wake of Zuma's decision, the sovereign will face rating downgrades; in the case of S&P or Fitch a downgrade would leave South Africa in high yield territory.
- **Currencies:** The South African rand plunged this week after president Zuma unexpectedly let go of his finance minister Gordhan. Mr Gordhan had previously brought stability to the financial markets in South Africa. While the reasons for the decision remain unclear, the reaction of the market was unequivocal – the rand was down by 6.9% on the week.