Week Ending **April 13, 2017**

Trading Places

Economic Overview:

Much of the analysis of world trade in recent years focused on explaining a post-crisis slowdown in trade volume. Before the crisis, world trade grew at annual rates of 5-10%. Since 2008, 0-5% growth rates prevailed. Less attention was paid to changes in the composition of trade. Well, the world of buying and selling goods and services has changed enormously in the past 25 years. Developed market countries used to trade only among themselves. Today the world trade equation is considerably different. Intra-Emerging Market trading accounts for 17% of global merchandise trade, and emerging market to developed market trade accounts for almost ½ of all world goods trade.

Highlights of the Week:

- **Treasuries:** Treasuries rallied in a "flight to quality" bid all week with concerns about Syria retaliation, N. Korea threats and Russian hardline talk. The largest move occurred on Wednesday with comments from Trump on liking lower Treasury yields, concern on USD strength, a possible Yellen re-nomination and China NOT being labeled a currency manipulator. Yields moved intraday eight basis points (bps) lower on the long end with Treasuries breaking ranges and marking new 2017 yield lows.
- **Equities:** US Equity markets fell for the second consecutive week as rising geopolitical tension spurred a risk-off sentiment. The market focus should shift back to corporate fundamentals in the near-term as earnings season kicked off in earnest on Thursday. Mega-cap banks were the first to report Q1 results, which largely came in better-than-expected.
- **Securitized Products:** The UK's mortgage crisis was mostly resolved today. Her Majesty's Treasury sold the £12 billion Bradford and Bingley buy-to-let portfolio that they "bailed-out" in 2010. These loans were packaged into two deals, a £10 billion and a £2 billion deal issued this week. The AAA class priced at 3-month GBP Libor +75 bps.
- **High Yield:** Technical conditions remain favorable for high yield investors. A combination of factors in April, including elevated coupon income, modest issuance expectations, and the potential for March outflows to reverse should all be supportive of high yield bond prices through the end of the month.
- **Emerging Markets:** El Salvador was downgraded by S&P and Fitch to 'CCC' after the sovereign failed to pay a local pension fund obligation last Friday. The payment failure is linked to a domestic political dispute whereby the opposition party in Congress has refused to approve government financing absent a fiscal adjustment. The Salvadoran government maintains that this dispute will not affect international debt obligations.
- **Currencies:** The Australian economy surprised on the upside this week after a particularly strong jobs market report on Thursday. Defying analysts' expectations, the economy added three times as many jobs as had been forecast, which helped push the Aussie dollar higher against most currencies. While many analysts were quick to discard the possibility of further rate cuts on the back of the strong data, others cautioned that the single reading might not be enough to justify an inflation back-up.