

Week Ending April 21, 2017

Not to Be-Labour the Point, in the U.K. Conservatives Retain the Poll Position

Economic Overview:

On Tuesday, U.K. Prime Minister Theresa May announced a snap General Election for June 8th, three years ahead of schedule. Mrs. May seeks to take advantage of polling data showing Conservatives lead Labour by the widest margin in the recent past (as shown above) to strengthen her leadership position and bargaining power with Europe. On the one hand, an emboldened Theresa May suggests a "harder" Brexit ahead. For the markets, hard Brexit has meant weaker U.K. equity markets and a weaker sterling exchange rate. On the other hand, we now think that stronger U.K. leadership will be beneficial to "U.K. Inc." Those investors still betting against the pound sterling may have to adjust their wagers accordingly.

Highlights of the Week:

- **Treasuries:** Treasuries traded in an 8 bps range this week ending around the midpoint, unchanged from last weeks close (2.22% on 10's). Volumes were light with no first tier economic data while markets await the 1st round results of the French elections on Sunday April 23 and the debt ceiling deadline on April 28. White house jawboning came back into focus with talk of healthcare reform closer to an agreement, as well as tax reform.
- **Corporates:** This year we have seen very little volatility in corporate bonds, at least according to spreads. Since the beginning of the year, the yield spread above Treasuries has traded in a slim 12 basis point range. That's the second lowest range in the post-crisis period. It is also well below the 64 basis point spread range seen in early 2016.
- **Equities:** The U.S. Equity Market rallied for the week on strong corporate earnings results and increased market optimism surrounding fiscal reform. Despite a pick up in market volatility due to rising geopolitical tension abroad and lower oil prices, equity prices have largely consolidated in a tight price range over the last several weeks of trading.
- **Emerging Markets:** Turkey held its highly-anticipated constitutional referendum, voting on whether or not to approve changes that would enhance the powers of the presidency and eliminate the role of prime minister. The referendum passed by a margin of 51.4% to 48.6%, though several opposition groups claimed there were procedural problems with the vote. The result was seen as a victory for President Recep Tayyip Erdogan, who stands to gain greater executive authority in future elections.
- **Securitized Products:** It's spring time, the sun is out, and it's time for solar ABS deals. Renovate America, Renew and YGreen are issuing next week. These Property Assessed Clean Energy (PACE) deals carry a split AA/AAA rating for the senior class and a weighted average life in the 6-7 year area. While environmentally positive, these deals face geographic concentration (CA, FL) headwinds and objections from the Federal Housing Finance Agency, the conservator of Fannie Mae and Freddie Mac, who believe PACE liens have priority over existing mortgages.
- **High Yield:** As markets try to make sense of geopolitical headlines, factors like economic growth, inflation rates, and interest rates remain the macro variables most likely to impact high yield markets. As developed economies continue to grow and inflation and interest rate changes remain benign, the environment for high yield will remain favorable to investors.
- **Currencies:** The British pound was the strongest G10 currency this week supported by the news of Prime Minister May's decision to unexpectedly call a general election in June. However, the camps remain divided as to whether the sharp jump on Tuesday is sustainable. On the one hand, many believe this is a "game-changing" moment that would strengthen the Prime Minister's Brexit negotiating stance. However, others believe the sterling's upside momentum was driven primarily by technical factors and will be short-lived, especially given the weak economic data in the UK recently.
- **Municipals:** The State of California issued \$1.25 billion of taxable municipal bonds this week to assist in funding the construction of High-Speed Passenger Trains. Along with "carbon taxes" and state general funds, the bond proceeds will be used to match grant money from the Federal Railroad Administration to fund construction of the project.