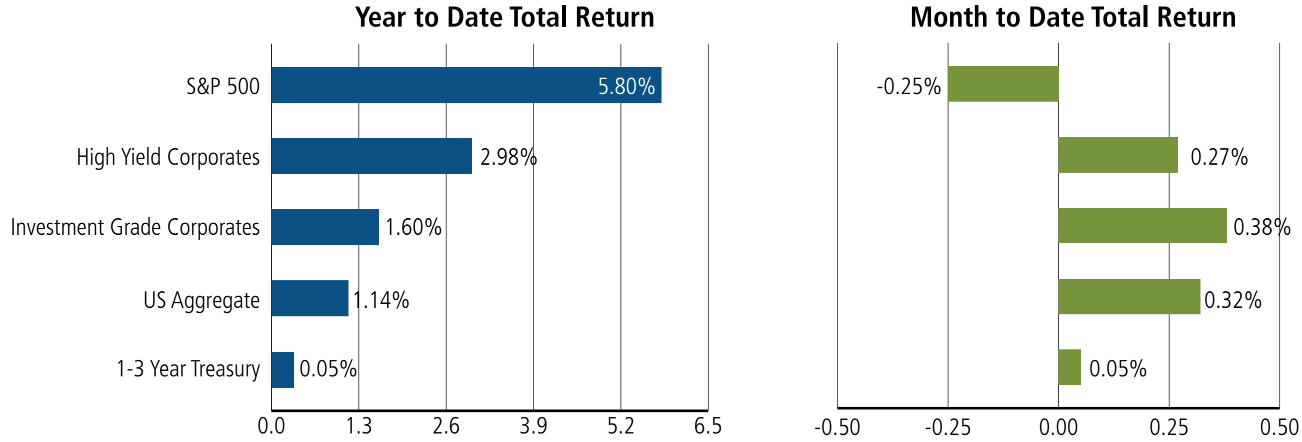
Week Ending **April 28, 2017**

Fake News on the Economy

Economic Overview:

We awoke Friday to the headline "U.S. Q1 growth weakest in 3 years." Did the economy wilt in the first quarter? No. Q1 growth disappointed in three of the last four years. Then Q2, Q3, and Q4 in each of those years showed growth rebounded. Why? It smells of seasonal adjustment problems to us. However, beyond the statistical quirks, looking at a quarterly annualized rate of GDP in any quarter is the wrong way to gauge economic health. Instead, investors should look at year-over-year trends. Doing so shows the U.S. economy grew 2% in Q1--just shy of the average rate of the cycle at 2.1%. Also, investors could look beyond GDP for better real-time clues. We prefer the monthly jobs report. In sum during the first quarter, 533,000 new jobs were added to payrolls. Summing up all the hours worked by those employees serves as a simple gauge of growth in near real-time (see Chart). The problem: headlines like "the economy records another quarter still growing at about 2%" just don't attract the eyeballs or garner Internet clicks.

Total Returns by Asset Class



Highlights of the Week:

- **Treasuries:** Treasuries rallied eight basis points (bps) in response to the first round French Presidential election results, providing the backdrop for the week. Yields held within the 2.30-2.34% resistance level. Trump's much-anticipated tax plan was a disappointment as well as the Q1 GDP print coming out at 0.7%, below lowered estimates. Cleaner positioning, volatility at the 2017 year lows, conflicting economic data and increasing geopolitical concerns have kept the markets steadfast.
- **Corporates:** Despite a positive environment for mergers and acquisitions, we have yet to see many deals completed in 2017. In fact, 2017 has only had about a tenth of 2016 total M&A deal volume so far. Still, many of today's common corporate woes (low growth, increasing competition, etc.) can be solved by M&A, so we do not see this as a long-term slowdown.
- **Equities:** The U.S. Equity Market rallied for the second consecutive week as the French election results spurred a risk-on sentiment. U.S. major stock indices climbed back to near record highs by Friday with companies reporting the strongest quarterly earnings in six years.
- **Emerging Markets:** Mexican authorities reported a solid first quarter GDP flash print, with real GDP printing an expansion of 2.7% year-over-year. This release allays uncertainty about whether Mexico would be subject to a hard landing in the aftermath of the U.S. Presidential elections. High-frequency data suggest that the services and primary sectors were the largest contributors to economic activity.
- **Securitized Products:** "Capital One, Discover Fall as Credit Card Write-Offs Surge" and "Synchrony Misses as Credit Rears Its Ugly Head" were this week's credit card headlines. Peak charge-offs are usually inside of two years and then taper off. Synchrony's newest accounts are over three years old, with 90%+ over five years seasoned. Capital One's accounts are all over five years old, and 94%+ of Discover's accounts are over five years. These headlines are more of an equity concern, not ABS trusts.
- **High Yield:** Higher quality, BB-rated bonds, which are often longer duration and more sensitive to interest rate moves, have outperformed their lower quality peers in April. This pattern is largely a result of this month's rate rally as the reflationary "Trump trade" began to unwind following the AHCA debacle in March.
- **Currencies:** The Swedish krona experienced a sharp sell off on Thursday after the Riksbank surprised the markets with its decision to expand its quantitative easing program. Interestingly, the board was split over the decision given the strong economic data recently, so governor Ingves had to cast the decisive vote. Keeping inflation around the 2% target level has been challenging for the Riksbank lately so analysts expect the central bank to remain cautious in the coming months. Despite the initial market reaction though, the krona stabilised on Friday and finished the week higher against the U.S. dollar.