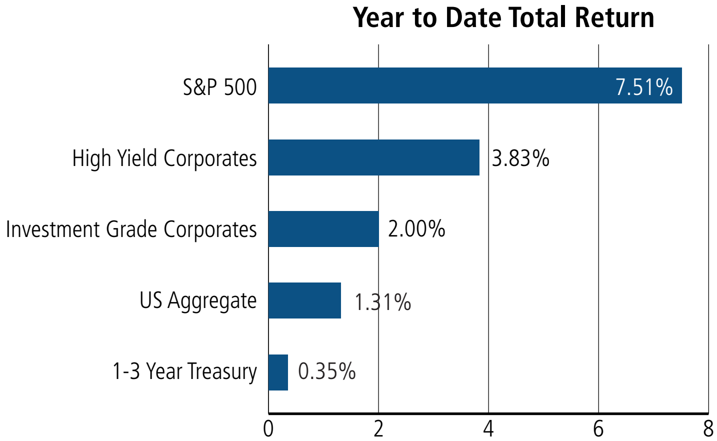
Week Ending **May 5, 2017**

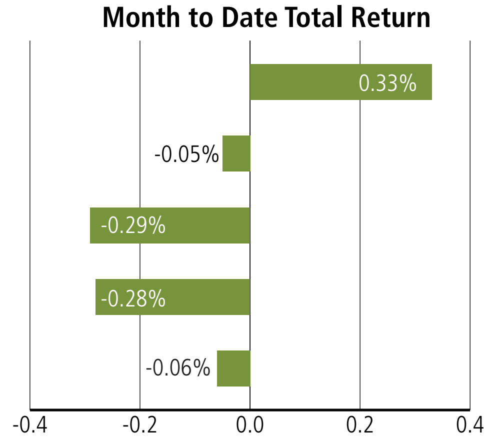
Breaking Up Is (Not) Hard to Do

Economic Overview:

In June of last year, the United Kingdom voted to exit the European Union. This past weekend the U.K. began its divorce proceedings, meeting with EU leaders at a Brexit Summit. No matter what Neal Sedaka would have you believe ("breaking up is hard to do"), the doomsday predictions and weaker data readings which occurred in the immediate aftermath of the Brexit vote proved misleading. Since then, purchasing managers indices covering the services and manufacturing sectors have bounced back to 55.8 and 57.3, respectively (a value above 50 indicates expansion) (see chart). In fact, last month, the U.K. manufacturing PMI rose to its highest level in 3 years. Some investors may now believe the U.K. will be better off alone.

Total Returns by Asset Class





Highlights of the Week:

- **Treasuries:** Treasuries weathered the barrage of mixed first-tier economic data with a small grind higher in yields and curve flattening (5/30's down to 109 basis points (bps) from 116 bps). The May FOMC came and went with no fireworks. Fridays nonfarm payroll number should keep the Fed on pace for gradual rate hikes with probabilities for a June hike at 88% and September at 93%, higher on the week. The markets are pricing 1.7 hikes for 2017 and 1.5 hikes for 2018, still below Fed projections.
- **Corporates:** May is opening with strong issuance in the wake of a slow April, with nearly $40 billion in new bonds in just the first week. Although the first quarter had the largest volume on record, April helped reduce year-to-date supply to just 5% ahead of 2016's pace.
- **Equities:** The U.S. Equity market posted a modest gain for the week on stronger growth prospects due to the better-than-expected jobs report and positive corporate earnings results. Despite the improving fundamental backdrop, equity prices traded in a narrow price range as falling oil prices offset some of the market optimism.
- **Emerging Markets:** The start of May brought with it the latest release of global PMI data. China's two manufacturing PMI series were weaker than expected; the national statistics reading fell to 51.2 (from 51.8), while the Caixin reading declined to 50.3 (from 51.2). The manufacturing PMI reading for India was flat at 52.5, while Indonesia's release showed improvement to 51.2 (from 50.5). The figure in Brazil improved to 50.1 from 49.6, bringing the reading above 50 for the first time since early 2015. Polish PMI also moved higher to 54.1 from 53.5. The Markit manufacturing PMI for Mexico declined to 50.7 (from 51.5), while Russia's result also fell to 50.8 (from 52.4).
- **Securitized Products:** Marketplace lending was back in the news this week with Prosper announcing that it had overstated annual investor returns due to a system error. In most cases, returns fell less than two percentage points according to spokeswoman Sarah Cain. In post-market trading, LendingClub declined 3.1% after its Q2 revenue forecast trailed estimates and Q1 originations fell one percent quarter-over-quarter. On a positive note, revenues beat analyst forecasts. Payden & Rygel does not have any marketplace lending asset-backed securities (MPL ABS).
- **High Yield:** High yield issuance was lighter than usual in April as $16 billion priced versus $30 billion on average during the previous four years. Deals performed well as issuers offered attractive coupons to investors awash in cash in a market characterized by solid issuer fundamentals.
- **Currencies:** Oil price volatility rattled the markets this week, and commodity currencies naturally took a plunge. Although the Australian dollar was the worst performing major currency this week, the fall of the Norwegian krone was quite pronounced as the currency hit a nine-month low versus the euro. Nevertheless, the Norwegian central bank decided to keep its policy rate unchanged on Thursday arguing that the economic outlook remains unchanged. We agree—given the recent growth of the economy, the sharp drop appears exaggerated and unlikely to be sustained.
- **Municipals:** Puerto Rico announced it would seek Title III protection—an in-court debt restructuring process—as it attempts to navigate what would be the largest default in the history of the municipal market at $70 billion. Negotiations with creditors will continue, but it is looking increasingly likely that creditors and possibly pensioners will realize restructured terms and haircuts on the Island's obligations.