

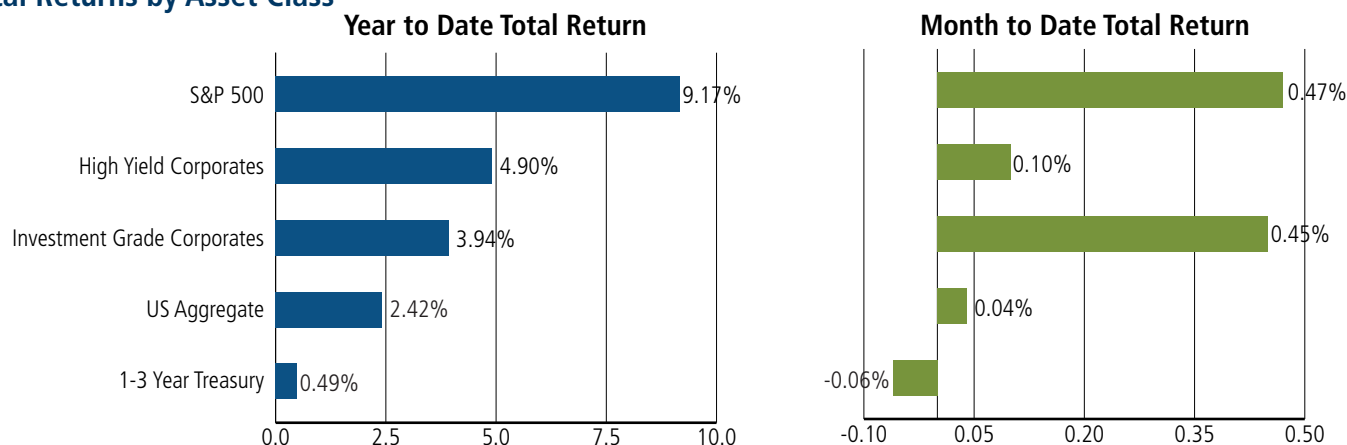
Week Ending June 30, 2017

Unyielding Central Bankers

Economic Overview:

Central banker confabs in swanky resort towns sometimes serve as pivotal moments for markets. For years, the annual Jackson Hole gathering provided the setting for big news: Raghuram Rajan's 2005 unheeded warning about financial system risk and Ben Bernanke's 2010 hat tip to QE2. This year Sintra, Portugal, upstaged Jackson Hole, Wyoming. The European Central Bank's (ECB) Forum on Central Banking took place this week in the Portuguese resort town of Sintra. In his remarks, ECB President Mario Draghi sounded optimistic and spoke of "prudence" in withdrawing stimulus. The Bank of England's Mark Carney said, "some removal of monetary stimulus is likely to become necessary" if Brexit worries lessen. And the U.S. Fed's Vice Chair Stanley Fischer worried about financial stability rather than low inflation. Altogether the monetary tinkerers were more hawkish than expected. [The market impact? Ten-year government bond yields in the U.S., U.K., and Germany lurched higher by 10-25 basis points.](#) Will we look back on this as a pivotal week in 2017 for global rates?

Total Returns by Asset Class



Highlights of the Week:

- **Treasuries:** Coordinated central bank "less accommodation" talk at the Sintra Summit in Portugal (BOE, BOC, ECB, BOJ), broke yields globally out of recent ranges and backed up the US long end by 10-15 bps. 5/30's curved only steepened three bps with dealers being forced to step up in the 2/5/7 year auctions which are now all underwater. 2017 and 2018 hike probabilities inched up a bit but remain well below Fed expectations with 2018 now fully priced for one hike.
- **Corporates:** IG corporate spreads proving to be very resilient as they continue to grind tighter closing the week at +109 basis points. EUR & GBP denominated corporates outperformed their US counterparts. Oil stabilizing back up to \$45.32 and limited issuance as we head into a weekend of fireworks.
- **Equities:** Bank stocks surged higher this week on the back of positive capital test results. This was music to Warren Buffett's ears as his holding company Berkshire Hathaway is expected to exercise their Bank of America warrants that were purchased six years ago, which will generate nearly \$12 billion in profit and make them the largest shareholder of Bank of America stock.
- **Emerging Markets:** Ghana's first quarter GDP growth registered a robust 6.6% y/y expansion, above the 4.1% y/y increase in Q4-16. The outturn was supported by a strong acceleration in the industrial sector, which grew by 11.5% y/y. Oil production, which is expected to pick up notably this year, supported activity in the mining and quarrying sector.
- **Securitized Products:** Jimmy John's \$800 million whole business securitization is the ABS deal of the week with the 3.9-year class pricing at 3.625% and the 9.5-year class pricing at 4.875%, well through initial guidance. Last week we met with President and CEO James North and CFO Jeff Vaughan and picked up some insights into the sandwich business. My key takeaway from James is to eat their Ghirardelli triple chocolate chunk cookies frozen.
- **High Yield:** Record demand for floating rate loan funds (the asset class has seen \$30 billion in retail inflows over the past year) has been driven by their attractive risk/reward profile. Higher short-term rates and the senior secured status of loans in the capital structure make loans a prudent investment for yield-thirsty investors.
- **Currencies:** Amid a flurry of hawkish comments by major central banks this week, it would have been easy to overlook the Czech National Bank. The policy makers left the interest rates unchanged on Thursday but sent signals to the market that the first rate hike in about a decade is likely to take place before the end of this year. Interestingly, the koruna was the top performing emerging market currency this week (+2.5%), and the third year to date surpassed only by the Mexican peso and Polish zloty.
- **Municipals:** New York MTA postponed a planned \$750 million transaction this week amidst Governor Cuomo declaring a 'State of Emergency' and a large single-day spike in municipal benchmark interest rates. Despite an increase in yields across the curve, municipal funds attracted \$496 million, bringing the YTD total to over \$5.6 billion. Meanwhile, the State of Illinois faces a midnight deadline to pass a budget and avoid what would almost certainly result in the state's credit rating being downgraded into junk territory.