

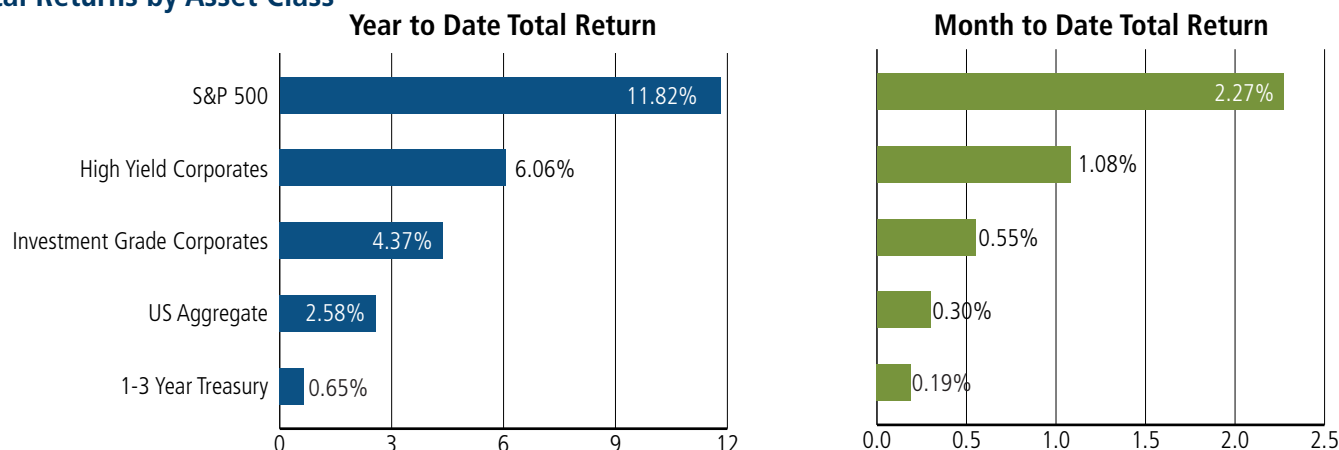
Week Ending July 28, 2017

## You Got Cohn-ed

## Economic Overview:

The July FOMC meeting elicited a collective yawn from financial markets. With no change to the fed funds rate and only a slight nod to imminent changes in the balance sheet ("relatively soon" = September), many think it is all quiet on the Fed front. Hardly. [Speculation intensified this week on the topic of the next Fed chair as Yellen's term ends in January 2018](#). The President's economic advisor, Gary Cohn, overtook Yellen in betting markets, as the most likely candidate. Cohn, a former investment banker, would not be as outlandish of a choice as some think. Often a President chooses a trusted advisor (G.W. Bush chose his Council of Economic Advisors chair, Ben Bernanke) and several recent Fed chiefs have assumed the helm without much Fed or academic experience (e.g., Alan Greenspan, William Miller, William McChesney Martin). Historically, the President puts forth his choice 3-4 months before the current Fed chair's term ends. The autumn will once again be interesting in central bank watching.

## Total Returns by Asset Class



## Highlights of the Week:

- **Corporates:** The corporate IG OAS continues to grind tighter ending at +102 basis points, the tightest level since September 2, 2014. PNC Bank was the first regional bank to tap the new issue market after its earnings "blackout" period, followed by SunTrust, both 5-years. This comes after a robust \$31 billion in the "Big Six" banks last week. API reported a larger than expected draw in Crude inventories. Spreads gapped tighter throughout the week, closing the day anywhere from 10-20 basis points tighter. The energy market has been well bid with buyers across names and curves as oil was up nearly 8% on the week.
- **Equities:** The U.S. Equity market ended the week unchanged as strong quarterly corporate earnings results were largely offset by profit-taking in some of the year-to-date winners. One notable company that reported disappointing results was e-commerce behemoth Amazon. The company reported 2nd Quarter earnings of 40 cents per share, which missed estimates of \$1.42 per share. Shares of AMZN fell 2% on the news.
- **Emerging Markets:** Pakistan's Premier Nawaz Sharif was forced to resign following a Supreme Court decision disqualifying him from holding office. Sharif was serving his third term. The ruling is connected to a probe into the sources of Sharif's wealth after damaging information emerged in the Panama papers.
- **Securitized Products:** Renovate America priced their \$204 million HERO 2017-2 solar ABS deal this week. The 5.43-year senior class yielded 3.285%. According to Moody's global green bond issuance in the second quarter was \$32.2 billion, a new quarterly record. They estimate 2017 issuance to be \$120 billion. Despite continued strong issuance, growth has slowed to 24% over the past year compared with 170% growth over the year prior.
- **Currencies:** Speculation about the likelihood of a withdrawal of monetary stimulus by the European Central Bank has been boosting the euro persistently, most notably against the weakened U.S. dollar. However, the latest casualty of the new-found euro strength was the Swiss franc, which reached an 18-month low against the euro this week. The slide of the "safe-haven" franc, largely attributed to the improving market sentiment in Europe, is likely to please the Swiss National Bank's officials who believe the currency is overvalued.
- **Municipals:** Total return of the broad Municipal Bond Index has outperformed U.S. Treasuries by a wide margin YTD, returning 4.35% versus 1.90% for the U.S. Treasury Index. Municipals are also in a dead heat with the U.S. Corporate Index, which has returned 4.37% YTD. The tax-exempt status, risk-adjusted returns, and positive technical backdrop will all continue to be supportive of demand for municipals and, we believe, will continue to translate into positive performance.
- **High Yield:** The GOP's failure to repeal the Affordable Care Act removes a potential headwind for high yield hospital issuers. Nonetheless, as Congress moves past the ACA-debate, it remains the case that each issuer presents its own set of risk and reward opportunities based on its fundamental operational and financial health. Prudent managers will be rewarded for looking past the headlines to identify the most attractive investment opportunities in this part of the high yield universe.