Payden&Rygel
Investment Management

Week Ending **August 4, 2017**

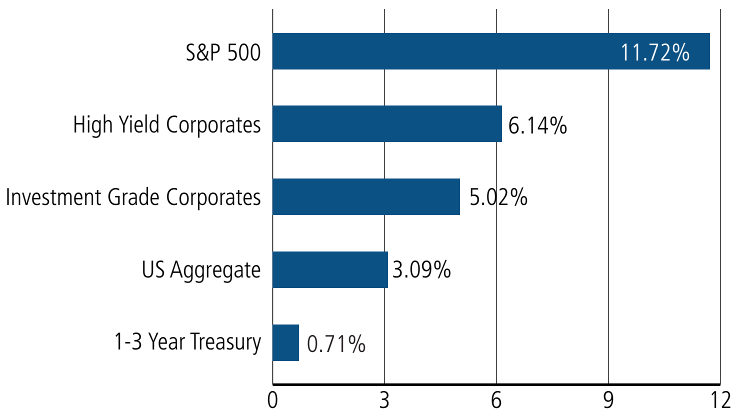
The Boy Who Cried Bubble

Economic Overview:

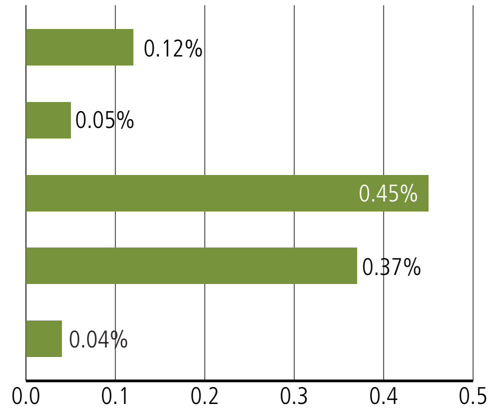
This week, former Chair of the Federal Reserve Alan Greenspan made headlines warning of a bond market bubble. Greenspan stated that "we are experiencing a bubble, not in stock prices but in bond prices. This is not discounted in the marketplace." We went back and looked at previous prognostications by Chair Greenspan regarding "bond bubbles." As early as 2010, Greenspan alluded to this when he authored an op-ed in the *Wall Street Journal* entitled "U.S. Debt and the Greece Analogy." When he made this claim the 10-year Treasury yield was above 3% but fell below 1.5% in the years that followed. Then in 2015, Greenspan went on Fox Business warning of a "dangerous bond bubble." Yields again fell. With his latest prediction, perhaps third time's the charm?

Total Returns by Asset Class

Year to Date Total Return



Month to Date Total Return



Highlights of the Week:

- **Treasuries:** The latest employment data for July was released today and continues to reflect a strong labor market. The unemployment rate dropped to 4.3% and nonfarm payrolls were higher than expected at 209,000. Early trading in the Treasury market was remarkably firm with prices down and yields up only slightly. Bullish trading in Treasuries on bearish bond market data provides insight that investors are still skeptical that the Fed will be able to raise interest rates for the rest of 2017.
- **Corporates:** The new issue calendar has kept most of us busy this week with $20 billion tapping the marketplace. August is expecting $80-$100 billion of new issue, up from previous estimates of $65 billion. TEVA was downgraded by both Moody's (to Baa3) and Fitch (to BBB-/neg outlook) late this week. TEVA spreads were 20-40 basis points wider on Friday itself with the front-end massively under-performing. With the rating agencies out of the way, the market will look for the other catalysts.
- **Equities:** The U.S. Equity Market posted a gain for the week on better than expected corporate earnings results and a strong jobs report. Tech giant Apple headlined earnings news this week and did not disappoint. Shares of the world largest company by market cap surged more than 4% higher after reporting impressive 3rd quarter results. The company reported earnings of $1.67 per share on $45.4 billion in revenue, both topping consensus estimates.
- **Emerging Markets:** Fitch revised the outlook on Mexico's 'BBB+' sovereign rating to 'stable' from 'negative.' For Mexico, this is the second rating outlook that has been upgraded in as many months; in July, S&P changed its 'negative' outlook on the Mexican sovereign to 'stable.' Fitch underscored the stabilization of the public debt burden and fewer downside risks to growth.
- **Securitized Products:** It has been ten years since the beginning of the financial crisis, and perhaps a time for some reflection. Back then, Citibank credit card chargeoffs stood at 3.59% versus 2.40% today, after reaching a high of 12.14% in September 2009. Subprime auto lender GM Financial issued their worst performing deal in 2007 racking up 18.91% in net cumulative losses. Moody's estimate for their latest deal is a mere 9.50%.
- **Currencies:** Sterling fell to its lowest level against the Euro since November 2016 after the Bank of England revised down its growth forecasts for the UK economy, left interest rates unchanged, and warned that Brexit uncertainty was holding back investment. The decline in the pound was even more pronounced as the Euro was propelled by a strengthening Eurozone economy and expectations of monetary policy tightening. Sterling also declined versus the USD on Friday as the greenback found support after the upside surprise in the U.S. jobs data.
- **Municipals:** Santee Cooper bonds rallied this week following the announcement that SCANA would abandon construction of its nuclear reactors on cost overrun concerns. Interestingly, MEAG municipals have also rallied along with Santee Cooper. Southern Company announced that while it has not made a final decision, the CEO indicated that he would recommend to regulators that construction of the Plant Vogtle nuclear facility be completed.
- **High Yield:** High yield issuers priced $7 billion in new bonds this week. That's a lot of issuance in the middle of the market's traditionally quiet summer period, but issuers continue to take advantage of wide-open capital markets to finance new projects and refinance debt. In weeks like these when new issue volumes are higher than normal, investors should remain selective in determining which deals are likely to add value to their portfolios.