Week Ending **August 11, 2017**

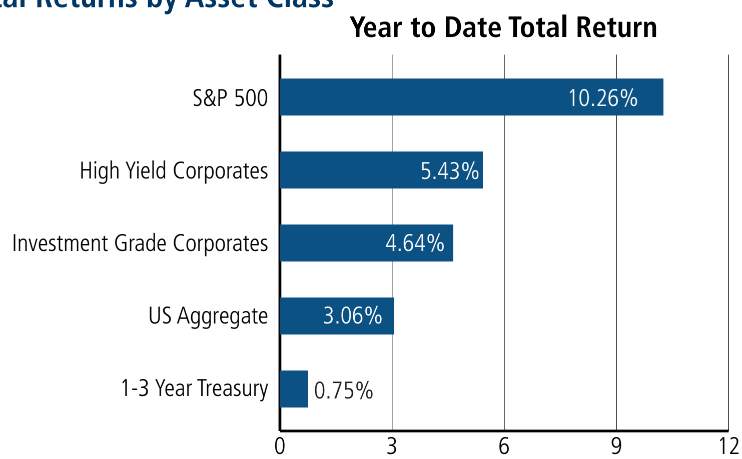
Open Your Eyes To The Job Market Strength

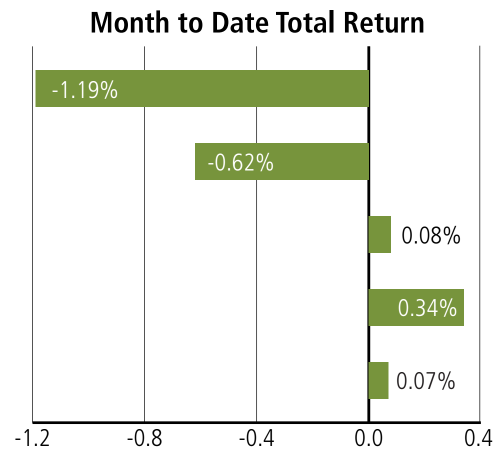
Economic Overview:

During June, job openings in the U.S. reached their highest level since the series was established almost 17 years ago, suggesting that the labor market continues to improve 7 years into the economic expansion. With a record number of jobs available, it should be no surprise the unemployment rate has returned to its pre-crisis lows. If job openings remain at current levels, we should expect an even lower unemployment rate by year-end. On top of that, many of the job openings are in high paying industries such as education, health services, and professional/business services. Don't fret the end of the expansion quite yet. The jobs data are telling us there's more room to run. Take note, economic bears and politicians alike!

We've received a lot of questions regarding the Fed's Balance Sheet unwind. To that end, we invite you to step back into your college classroom and follow along as we draw and explain our thoughts on the latest video in our 'Whiteboard Economics' series. Will it be another Taper Tantrum or much ado about nothing? Click here to watch.

Total Returns by Asset Class





Highlights of the Week:

- **Treasuries:** Treasury markets traded in tight ranges to start the week awaiting the CPI report on Friday. However geopolitical risks took center stage, causing a flight to quality bid in the long end. Core CPI came in unchanged at 1.7% year-over-year and failed to stoke any inflationary concerns. The Fed's "inflation is transitory rhetoric" is being more and more questioned by the markets with less than a 50% chance for a hike in 2017 and approximate 85% chance for a hike in 2018. Balance sheet roll off still seems to be a done deal in September …. so far.
- **Corporates:** A steady, telegraphed calendar weighed on spreads throughout the week. The market experienced a bit of indigestion with $43 billion of issuance tapping the market. While all eyes have been on the new issue calendar, secondaries have taken the brunt of the widening. Secondary trace volumes have been lower, dealer balance sheets are skewed towards being long, and the lack of liquidity normally accompanying the summer heat is evident. Equities are bouncing off all-time highs, the VIX is at 1-month highs and geopolitical issues are all contributing to a pull-back in spreads. Current OAS is at +110 while last Friday we were at +105.
- **Equities:** The U.S. Equity Market posted its second worst weekly loss of the year as rising geopolitical tension spurred a risk-off trade. Market volatility, which has been at historical lows for most of the year, spiked to levels last seen during the U.S. presidential election. The market leadership was from the defensively viewed consumer staples and utilities, while the laggards were energy and financials.
- **Emerging Markets:** Kenya hosted presidential elections on August 8th. Results are not official though the incumbent, Uhuru Kenyatta, maintains to have a firm lead in the polls.
- **Securitized Products:** Invitation Homes and Starwood Waypoint Homes announced their merger this week to create a combined company with 82,000 single-family homes. They will be the largest owner of single-family rental (SFR) homes in the country and will operate under the name of Invitation Homes. The merger is expected to realize $45 to $50 million in operating savings according to S&P.
- **Currencies:** The latest geopolitical tension between the U.S. and North Korea boosted the demand for perceived "safe-haven" assets this week and that was clearly demonstrated by the move of Asian currencies. On the one hand, the Japanese yen climbed against the U.S. dollar by close to 1.10% on the week, while the South Korean won sold off by nearly 2.15%. The Philippine and Australian currencies were also weaker as concerns about the escalating conflict in the region prevailed.
- **Municipal:** Municipal bond mutual funds attracted $631 million of inflows for the week ending August 9th. This was the fourth consecutive week of inflows, totaling $1.4 billion over that time period. Municipal performance continues to be strong and is assisted by a strong technical backdrop of limited supply and sustained inflows to the asset class. Given current supply-demand projections, this dynamic is expected to persist throughout the remainder of the year.
- **High Yield:** Tesla is in the market this week with their first unsecured bond deal. While shareholders' commitment to the enterprise has been rewarded with 64% annualized returns over the past five years, the annual coupon for prospective creditors is limited to 5.25%. Tesla may well transform the transportation sector, but until the company demonstrates a sustainable level of profitability, prudent creditors should demand an interest rate commensurate with the risks associated with financing a business at this stage of its lifecycle.