

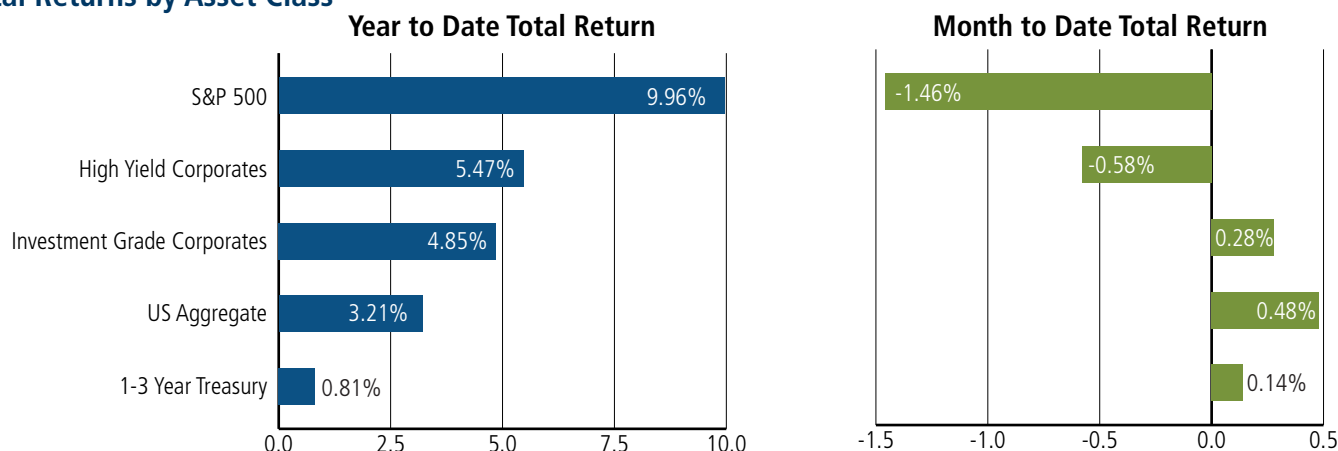
Week Ending August 18, 2017

## No One's Sitting At Home in the U.K.

### Economic Overview:

As Brexit continues to create headlines, the U.K. economy continues to create jobs. [This week, the Office for National Statistics released the Labour Force Survey which showed 57,000 fewer unemployed people which brought the unemployment rate to 4.4%](#). Ironically this is lowest rate since 1975, when the U.K. held a referendum on whether to stay or leave the European Communities, a precursor to the European Union. The inactivity rate (the proportion of workers aged 16-64 who are not working, not seeking work, or not available to work) declined to 21.3%, its lowest level since this data series began in 1971. The missing piece of the puzzle is wage growth, but with a labour market that continues to tighten, we anticipate wages will increase soon.

### Total Returns by Asset Class



### Highlights of the Week:

- **Treasuries:** Terrorism, domestic political unrest and slightly dovish Fed minutes all provided the tailwind for the continued flight to quality bid in treasuries. Curves flattened, volatility popped slightly and positioning extended longer as shorts were covered and duration was stopped in. Risk off mode was in full force with political instability from the Trump administration.
- **Corporates:** Market indigestion on the back of recent supply has subsided as expectations issuance for the rest of the month are low. Month to date issuance is already \$91 billion compared to the last four years' average for August of \$61 billion. Amazon brought the lion's share of the primary issuance this week, tapping the market for \$16 billion to fund their acquisition of Whole Foods. Risk assets initially rallied from last week's sell-off only to reverse course into the end of the week with the attacks in Spain and the scrutiny over Trump's response to the events in Charlottesville driving a risk-off tone.
- **Equities:** The U.S. equity market fell for the second consecutive week as investors begin to question the viability of President Trump's pro-growth agenda. Mixed corporate earnings results from major retailers and rising geopolitical risks sent investors seeking safe-haven risk assets such as utility companies and gold. The risk-off tone was also apparent as large-cap stocks outperformed small-cap stocks.
- **Emerging Markets:** Argentina's congressional primary elections garnered attention, as markets had become nervous about the possible reemergence of former President Cristina Kirchner. However, Kirchner did not fare as well as expected, while President Macri's Cambiemos coalition performed better than expected. Argentine assets rallied, as the primaries suggested that October's congressional election outcome will support the government's reform agenda.
- **Securitized Products:** The primary regulator for Fannie Mae and Freddie Mac, the Federal Housing Finance Authority (FHFA), announced an extension of the Home Affordability Refinance Program (HARP) to December 31, 2018. This marks the seventh HARP extension since the program rollout in 2009. The rationale for the extension was a delay in the rollout of the High LTV Refinance Opportunity (HLRO) program. Investor reaction has been muted due to refinance burnout as eligible borrowers have already taken advantage of refinance opportunities.
- **Currencies:** Inflation outcomes have surprised on the downside for the most part of 2017, which is why the recent spike in inflation in Sweden caught many investors off-guard. The Swedish krona soared against the euro on Tuesday after the latest CPI numbers came in at 2.4%, well above consensus. It remains to be seen if this would encourage the traditionally cautious Riksbank to raise rates off their record lows soon.
- **High Yield:** Sentiment in high yield markets has softened since July as investors have retrenched in an uncertain political landscape. Nonetheless, against a fundamental backdrop that remains constructive, the medium-term technical picture is positive. Cash flows to high yield bond investors from coupon payments and maturities are expected to exceed new volume issue over the next twelve months, which should act as a stabilizer for bond prices.