Week Ending **August 25, 2017**

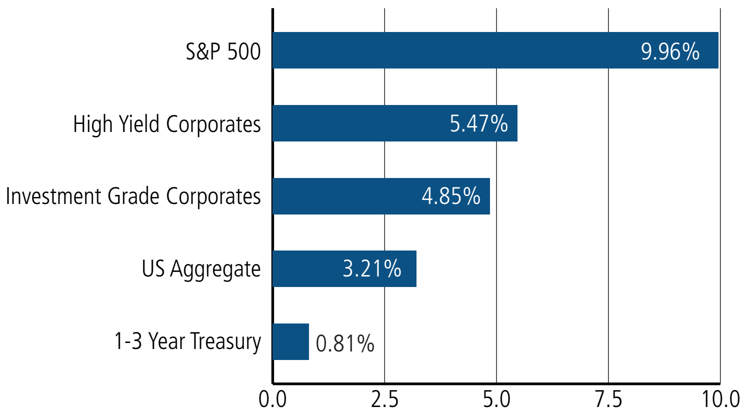
Astronomers Eclipse The Wall Street Prognosticators

Economic Overview:

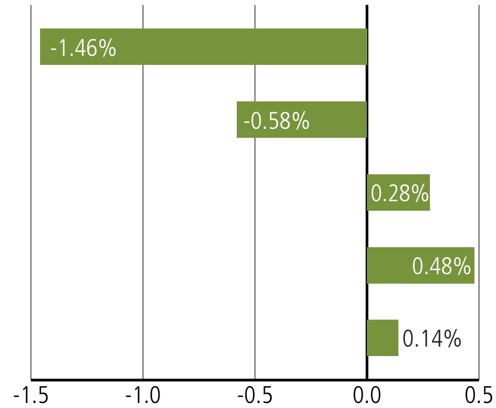
While Americans donned special glasses to gaze at the solar eclipse, we marveled at astronomers' precision forecast of the moon's transit in front of the sun. Unfortunately, investors put a similar amount of trust in the predictions of Wall Street soothsayers. Bloomberg this week touted "Wall Street Banks Warn Downturn Is Coming," suggesting stocks were due to soon fall under the shadow of another sort. One of the indicators cited, the Morgan Stanley Global Correlation Index, shows cross-asset correlations. The index reached current levels in 2007, allegedly portending the crash. But, the index was low from 2003 to 2006 and as recently as 2014, without a crash. With the job market on solid footing, you would be better off preparing for the next total eclipse in April 2024 than worrying about every obscure indicator Wall Street has to offer.

Total Returns by Asset Class

Year to Date Total Return



Month to Date Total Return



Highlights of the Week:

- **Treasuries:** Jackson Hole came and went with Yellen's speech sticking to convention topics and no mention of hikes or inflation. She was adamant on reforming financial regulations only slightly so the summer of carry continues. Treasuries rallied and yields remained near their range lows. Curves flattened and rate hike probabilities stayed unchanged with 40% for 1 hike in 2017 and 85% for 1 hike in 2018. Next week brings nonfarm payrolls and short end treasury supply in 2, 5, and 7-year maturities.
- **Corporates:** The Corporate OAS was unchanged on the week at +110, 8 basis points wider on the month but still 13 basis points tighter on the year. Market traded sideways this week without much direction, one way or another. Secondary trading volumes continued to be anemic as we made our way through the second to last week of August. Trading volumes on the week were down nearly 20% versus the running year-to-date average. The new issue market should most likely be closed until after Labor Day.
- **Equities:** The U.S. equity market rallied for the first time in three weeks on optimism surrounding tax reform. Low investor attendance contributed to the light trading volumes with market volatility compressing precipitously lower. Market leadership was from defensively viewed sectors such as real estate and telecom, while consumer staples was the only sector that posted a weekly loss.
- **Emerging Markets:** In Angola, Presidential elections were held this week, paving the way for the first change in the executive in 38 years. Though current President Dos Santos is stepping down, his party will remain in power after winning 61% of the vote.
- **Currencies:** While the markets were cautiously waiting for the latest monetary policy updates from the annual Jackson Hole meeting, the Reserve Bank of New Zealand surprised with dovish comments that undermined the kiwi dollar. The currency was the worst G10 performer of the week after the Treasury lowered the domestic growth forecast for the year in its latest pre-election fiscal update. The possibility of a potential intervention by the Reserve Bank of New Zealand is likely to continue to weigh on the kiwi dollar.
- **Municipal:** After five consecutive weeks of inflows, investors pulled $636 million from municipal bond funds over the previous week. However, municipals continue to be a bright spot in the fixed income markets, with the broad index returning over 5% YTD. We believe longer-dated maturities still represent the best value in the market, as the yield curve has steepened and ratios to Treasuries have increased, representing better relative value.
- **High Yield:** The Merrill Lynch BB/B U.S. High Yield Bond Index has returned -0.37% so far in August. Some of the more fundamentally challenged sectors, such as wireline telecoms and oilfield servicers, have driven the market lower. Soft markets like these are not unfamiliar territory for experienced high yield investors, who should navigate choppy markets with higher quality securities that can weather the occasional storm.