

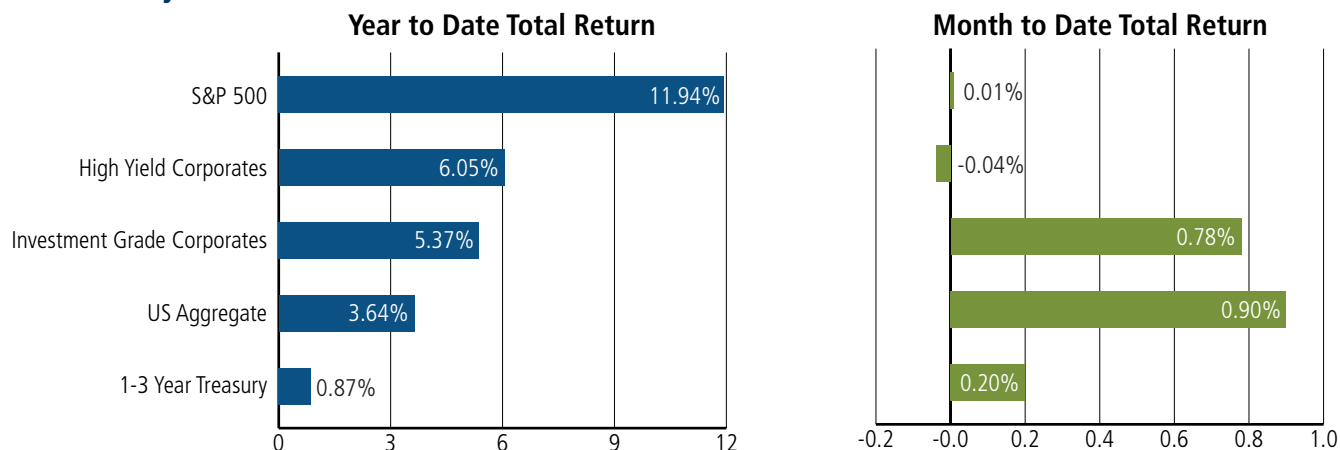
Week Ending September 8, 2017

Harvey Makes Landfall on The Economic Data

Economic Overview:

Hurricane Harvey made landfall last week and left billions of dollars of devastation in its wake. [Now, the natural disaster is making landfall on the U.S. economic data as well.](#) Initial claims for unemployment insurance, a great leading indicator of economic weakness, spiked from 236,000 to 298,000 in the week ending September 2, 2017. Don't fear an economic downturn though, new claims from Texas explain almost the entire jump. Further, this is not the first time a spike in initial claims followed a natural disaster. In 2005 and 2012, Hurricanes Katrina and Sandy caused similar layoff spikes. In each instance, the economic impact was short-lived. While Hurricane Harvey will continue to cloud the data in the short term, we do not expect any enduring impact on the resilient U.S. economy's growth trajectory or the path of the federal funds rate.

Total Returns by Asset Class



Highlights of the Week:

- **Treasuries:** The flight to quality bid took another leg higher this week with catastrophic hurricanes, North Korea threats, stop in levels hit and overall weaker economic data. The more dovish ECB meeting added to the duration grab with U.S. treasuries from 5's out making new yield lows on the year. Curves flattened more, positions got longer duration and markets started to price in a small probability of rate cuts in mid-2018. One full hike is not priced in until early 2019 now. Next week brings inflation data along with much needed treasury supply to help relieve the specialness in repo.
- **Corporates:** The market's attention has been on the new issue market as we've seen over \$43 billion issued over the past week. The bulk of issuance is pricing flat to inside secondary issues. It feels like the market will move wider before it moves tighter with the prospect of further primary market issuance and continued geopolitical risk weighing on investors' minds. Notable market moving events this week included the extension of the U.S. debt limit into December and the oncoming arrival of Hurricane Irma.
- **Equities:** The U.S. Equity Market fell for the first time in three weeks as geopolitical uncertainty drove a risk-off tone across risk assets. One notable company that managed to post gains for the week was AbbVie (ABBV). The pharmaceutical giant received a favorable patent ruling, which helped protect their Humira franchise. Shares of ABBV surged by more than 10% post the positive news.
- **Emerging Markets:** After the Labor Day holiday in the U.S., EM primary market activity came back to life with a broad range of corporates and sovereigns moving forward with issuance plans amid a favorable market backdrop. The Republic of Tajikistan was a notable debut market entrant, placing \$500 million of a 10-year maturity at a 7.125% annual rate. The small, former Soviet state will become a constituent of the EM sovereign benchmark next month.
- **Securitized Products:** Images of flooded out vehicles from Harvey and Irma have left many wondering, what is going to happen to auto ABS? Rest assured, this is more of an insurance company issue than an auto ABS issue. On the margin, vehicles will need to be replaced which will provide a boost to new car sales and more so to the soft used car market.
- **Currencies:** With the latest developments of the situation in North Korea and Hurricane Irma making the headlines this week, one could easily miss the latest rate hike by a developed market central bank. The Bank of Canada caught many investors by surprise with a rate increase of 0.25% on Wednesday. This was the second rate hike this year and another one seems likely to take place sooner rather than later. The Canadian dollar rallied on the news and was the best performing major currency this week.
- **High Yield:** Macro uncertainty was elevated in early August as saber-rattling in North Korea and terrorist attacks in Spain spooked risk markets. Nonetheless, high yield bonds recovered quickly from early-month weakness. This outcome is consistent with a pattern we've observed all year: high yield bonds remain scarce and investors flush with cash are quick to bid the market back up.