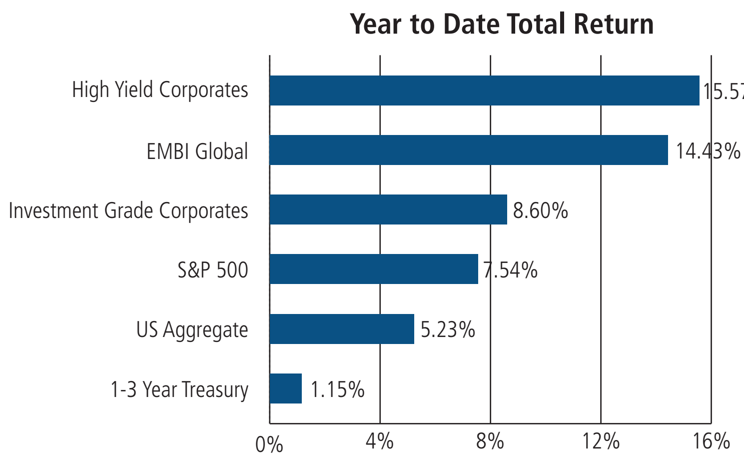
Week Ending **October 7, 2016**

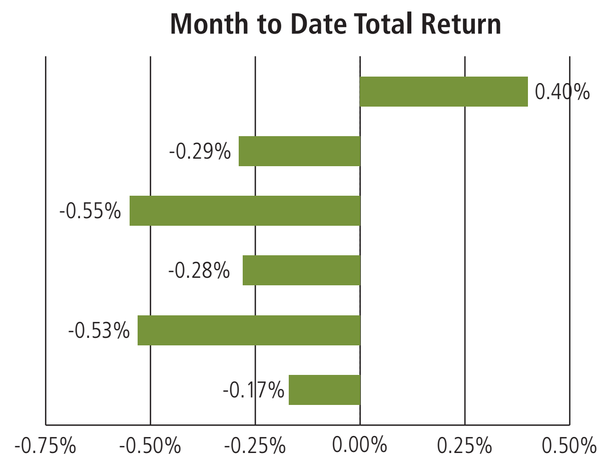
Rates Bump Higher During the Week as Economic Data Argue For a December Rate Hike

Economic Overview:

Total nonfarm payroll employment rose by 156,000 in September. Looking through the month-to-month volatility, in 2016, job growth has averaged 178,000 per month, compared with an average of 229,000 per month in 2015. With job growth continuing at a decent clip, what is the Fed waiting for? Who knows? What we do know is that the labor force participation rate rose this year unexpectedly, creating a bit more slack in the labor market. In fact, 444,000 workers entered the labor force in September, pushing the labor force participation rate to 62.9%, up from 62.4% a year ago. It doesn't sound like much, but the 0.5% change constitutes over 3 million workers. This positive development buys the Fed more time (at least until December).

Total Returns by Asset Class





Highlights of the Week:

- **Treasuries:** The Treasury market sold off this week as yields ended 9-13bps higher across the curve. Today's monthly payrolls print caused some minor volatility but didn't end up moving the market significantly in either direction. The 5s30s curve is about 3bps steeper on the week. Next week we have supply in 3s, 10s, and 30s.
- **Equities:** Specialty clothing retailer The Gap, Inc. reported better-than-expected September same-store-sales, offering some signs of hope for the struggling retail industry. Shares of the company (GPS) rallied as much as +17% on Friday from the positive report, which may suggest improved investor sentiment heading into the 3rd quarter earnings season. Aluminum company Alcoa kicks off the earnings season on Tuesday.
- **Corporates:** Brexit fears are upon the market again, and financial companies are at the forefront. Passporting rights, which allow an easy flow of financial services across European borders, are on the chopping block as U.K. leaders push for a "hard Brexit."
- **Structured Product:** In a surprise, mortgage prepayments came in slower than expected this week. In not as much of a surprise, Cabela's agreed to be bought by Bass Pro Shops in a $5.5 billion deal, and sold their credit card operations to Capital One. The good news is that Cabela's CLUB points and Bass Pro Shops Outdoor Rewards points will be unaffected by the transactions.
- **High Yield:** Although ten year treasury rates are up 16 basis points this week, high yield bond prices actually moved higher. This isn't unusual: high yield bond returns are historically negatively correlated with rate movements, so fixed income portfolios seeking superior risk-adjusted returns tend to benefit from an allocation to high yield bonds.
- **Emerging Markets:** In a highly publicized plebiscite vote last Sunday, a majority of Colombians rejected the peace agreement that the government had secured with the country's largest remaining separatist group, the FARC. The government's failure to gain popular approval for the accord was a political upset for the Santos administration which had been negotiating the terms of the deal since 2012.
- **Municipals:** Harvard University issued $2.5 billion of municipals this week - $1.5b tax-exempt and another $1b taxable. Municipal funds experienced the 40th consecutive week of fund flows this year, extending the streak to 53 consecutive weeks overall.
- **Currencies:** While the fate of the British pound dominated the headlines this week, the Japanese yen's weakness against the US Dollar commanded less attention. The currency lost nearly 2% over the past week, and close to 3% over the past 8 days, thus falling from its previous multi-year highs versus the greenback and providing some respite for the Bank of Japan ahead of the meeting in early November.