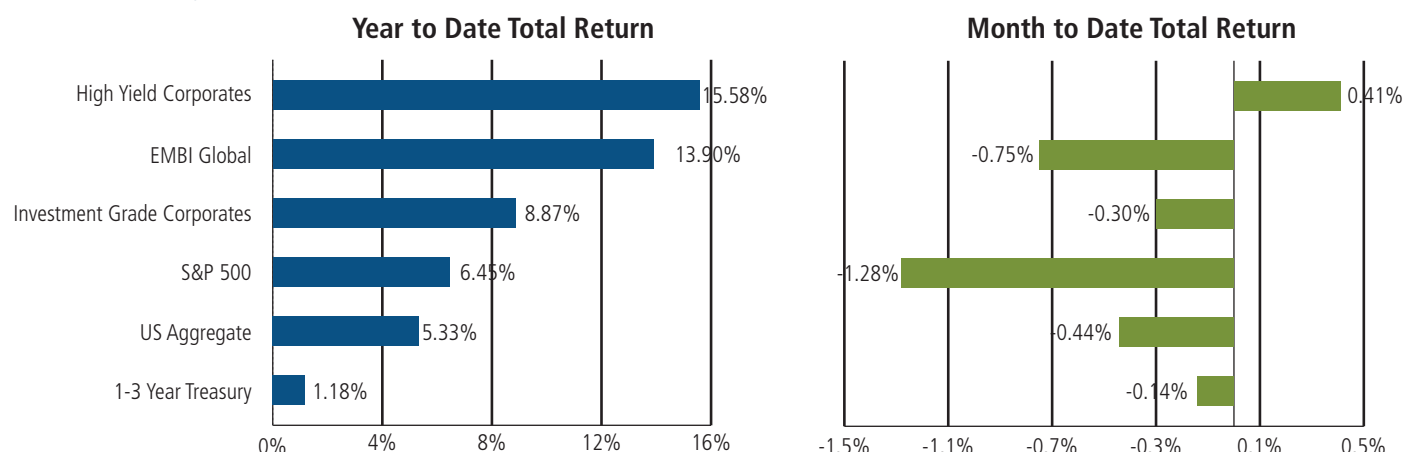


Week Ending **October 14, 2016****Yields Rise, Pound Falls in a Jittery Week****Economic Overview:**

This week, as fears of Brexit festered, the British pound fell to its lowest level against the US dollar since 1791—yes, the lowest exchange value since the birth of the American Republic. The history of the exchange rate between the two great nations' currencies tells a fascinating tale. For much of the 1800s, foreign exchange value stability prevailed, with a couple of notable exceptions. For instance, during the War of 1812 the exchange rate fluctuated dramatically. During the depths of the American Civil War (1864), as many as 10 US dollars were required to purchase a single British pound. Post-World War II Britain saw a sharp devaluation of the pound. After the tour of history, we are left with at least one important lesson; while the exchange rate in 2016 plumbs historic lows, the pound has experienced sharper drops. Faint praise for sterling, we know. With the pound garnering fewer dollars per unit exchanged, expect holders of bonds denominated in pounds to demand more—higher yields, to be exact.

Total Returns by Asset Class**Highlights of the Week:**

- **Treasuries:** Treasury yields absorbed the 3/10/30 year new issuance and FOMC minutes without much fanfare this holiday shortened week. Yields remained close to unchanged from last Friday's levels at the upper end of the past four month range.
- **Equities:** A busy week for Wells Fargo as CEO John Stumpf stepped down amidst the unauthorized account openings scandal, which overshadowed better-than-expected 3rd quarter earnings. The first week of the earnings season ended generally positive as JPMorgan Chase and Citigroup also reported strong quarterly results.
- **Corporates:** While a few banks opened earnings season with better-than-expected results, don't confuse "encouraging" with positive: overall third quarter earnings growth was still negative for results posted this week.
- **Securitized Product:** Heavy issuance continues to flood the Asset-Backed Securities market as issuers stay ahead of new regulatory reporting requirements taking effect later this year. The talk of the town was the well-attended (500+ market participants) inaugural Agency mortgage credit risk transfer (CRT) Symposium. The consensus was that current mechanisms for transferring mortgage risk are sufficient enough to protect tax-payers such that Fannie Mae/Freddie Mac reform might no longer be necessary.
- **High Yield:** The Moody's global high yield default rate has dropped for the first time in 13 months as we begin to lap last year's wave of commodity-related restructurings. As the weaker hands have folded, the overall quality of the high yield universe has improved.
- **Emerging Markets:** The International Monetary Fund (IMF) released its latest World Economic Outlook, which updates the Fund's outlook for global growth. The IMF left its growth projection for 2016 unchanged at 3.1% and expects a modest pick up to 3.4% in 2017. Underlying the figures, the IMF revised down advanced economy growth to 1.6% for 2016 (previously 1.8%). In contrast, the economic expansion for emerging markets was revised up to 4.2% (previously 4.1%).
- **Municipals:** With money market reform being finalized this week, short term rates may be finding some firmer footing. VRDN inventory fell from over \$11bn at the end of September, to less than \$3bn this week, and SIFMA, the 7-day floating rate index, this week posted its first decline since the end of June 2016, resetting to 83bps from 87bps.
- **Currencies:** Often seen collectively as the "commodity bloc duo", the Canadian and Australian dollars benefitted from the rebound in risk sentiment this week. Despite a slip in oil prices on Wednesday, as well as an increased likelihood of a US rate hike this year, which supported the greenback mid-week, the loonie and aussie managed to climb higher against the US dollar by Friday. Positive industrial data out of China additionally supported the Australian dollar and it gained 1.05% against the greenback by the end of the week.