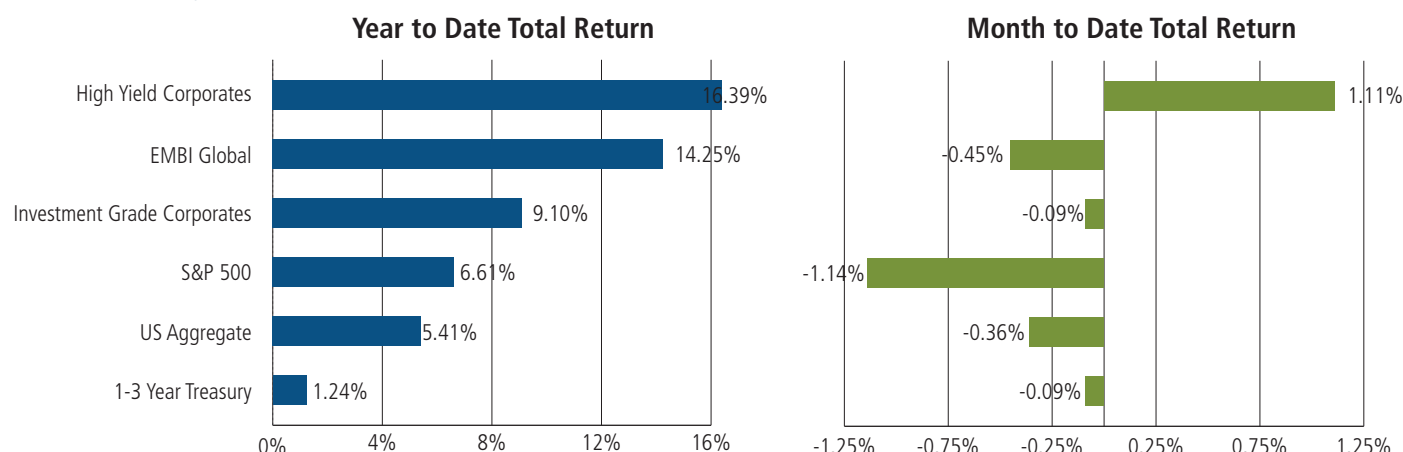


Week Ending **October 21, 2016****Economic Policy Uncertainty Looms Over Markets****Economic Overview:**

In a week that offered the final US Presidential debate, a meeting of the European Central Bank, and talk of hard Brexit, investors could not escape economic policy uncertainty. How uncertain are these times, though, when compared against history? One way to judge is by reading the newly-minted [Global Economic Policy Uncertainty Index](#): a measure of uncertainty based on a count of newspaper articles containing a minimum of three words relating to policy uncertainty (e.g., uncertainty, economy, legislation, etc.). The sixteen countries covered in the index comprise two-thirds of global GDP. The period after the Global Financial Crisis has been characterized both by regular spikes in uncertainty and sluggish global economic growth. Brexit ushered in the highest reading on the index to date. In fact, the average value of the index post-Brexit is 53% higher than it was during the 2008-2009 crisis. Will growth wilt as a result or is the worst uncertainty behind us?

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

- **Treasuries:** Treasuries digested the US Consumer Price Index, the Fed's Beige book, and European Central Bank (ECB)'s rate decision without much fanfare as yields stayed within a tight four basis point range for the majority of the week. The 5's/30's yield curve--the difference in yield between a 5-year Treasury and 30-year Treasury--tested the wides of 130 basis points before settling at the 123 level. The market's assessment of the probability of a December Fed rate hike fell to 59% from nearly 70% last week.
- **Equities:** Sixty-eight of the 82 companies in the S&P 500 reporting earnings this week posted better than expected profits for the quarter. One standout was software giant Microsoft, which reported record results on growth in cloud-based software services. Shares of MSFT were up 5% on the news, surpassing prices last seen in 1999.
- **Corporates:** M&A took center stage in the corporate world this week, with talk of several potential mergers simmering. AT&T and Time Warner Inc. were rumored to be in discussions, while British American Tobacco is seeking full ownership of Reynolds. But spreads moved only marginally--an indication that markets think these stories are either unlikely or will have little implication for credit.
- **Securitized Product:** Since mid-February, we have witnessed a steady march of diminishing risk premiums and tighter spreads in securitized products. That changed this week with the subordinated classes of a subprime auto ABS deal and the last cash flow of a credit risk transfer (CRT) deal, where the wide end of price guidance and even outright wider spreads were necessary to clear the deals. In short, we finally saw evidence of investor push-back for overly aggressive pricing ambitions.
- **High Yield:** Flows into leveraged loan funds have accelerated in recent months. These inflows have driven retail loan fund assets under management to \$103 billion, but this remains well below the peak level reached in 2013. As the Fed considers raising interest rates, investor appetite for loans and their floating rate feature could continue to increase.
- **Municipals:** The week of 10/19/2016 saw weekly municipal bond fund outflows of \$136 million, breaking a 44-week streak of inflows. SIFMA dropped for the second consecutive week, falling another 9bps to 74bps.
- **Currencies:** The euro hit a post-March 2016 low at 1.088 versus the US dollar, as investors considered the chances of the ECB extending its asset purchase program. While the ECB made no changes to policy this week, Mr. Draghi stressed that the ECB does not intend to taper its bond-buying program abruptly and he also hinted that the scheme might continue beyond its March 2017 end date.