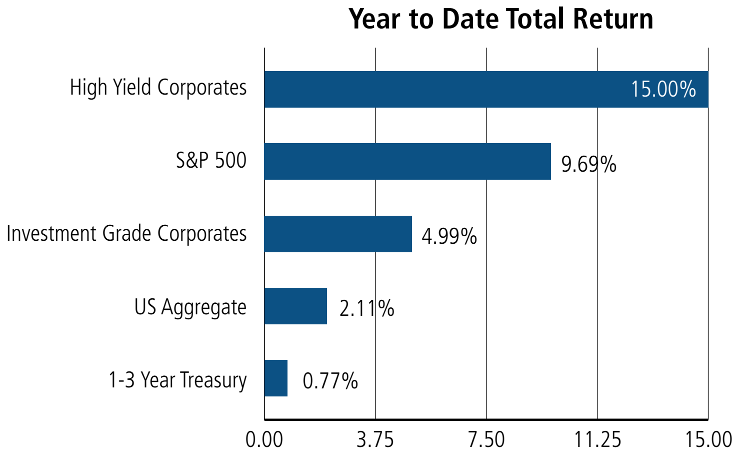
Week Ending **December 2, 2016**

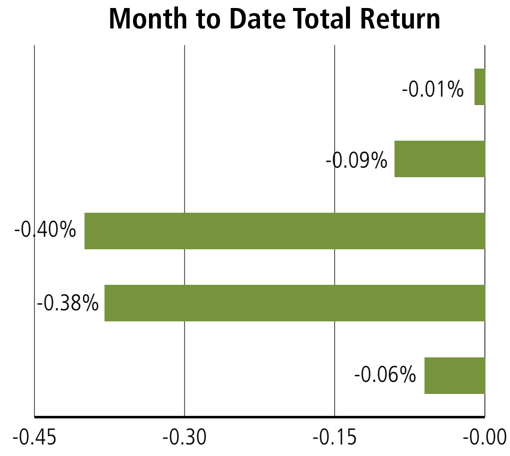
Thanks, Obama! Hello, Trump?

Economic Overview:

As we approach a transition (a Fed rate hike in December and a Presidential transition in January), it's worth a quick retrospective on the state of the US labor market. As of November 2016, the US continued a record string of 74 consecutive months of nonfarm payroll growth. In sum, the historic run of job growth added 14.8 million jobs to nonfarm payrolls over that time. The official unemployment rate is now well below its 25-year average, at 4.6%. The "real" unemployment rate, the U-6 measure of unemployment which counts underemployed workers, fell to 9.3%, a new cycle low. The percentage of employed Americans between the ages of 25 and 54 years of age ("prime working age") reached 78%, a cycle high and up from 75% during the recession. What's more, the US enjoys more job openings than at any other time on record and the fewest number of layoffs as a share of the labor force in history. What's not to like? Perhaps lackluster wages. In Friday's jobs report, average hourly earnings rose only 2.5% compared to last November. However, with a near record low unemployment rate and a growing economy, we expect wages to rise further in 2017.

Total Returns by Asset Class





Highlights of the Week:

- **Equities:** US equities fell for the first time in four weeks as volatility in interest rates overshadowed the OPEC oil production deal. Trading volumes spiked on Wednesday more than the typical month end, which suggests investors are already looking ahead to 2017.

- **Corporates:** This week, President-elect Trump convinced Carrier Corp to keep nearly 1,000 factory jobs in Indiana, setting a precedent for his administration. His plans to keep jobs in the country include cutting the corporate tax rate, slashing regulations, enacting tariffs and higher taxes for companies that do decide to export jobs. If successfully implemented, this could shift corporate incentives.

- **Securitized Product:** November was the busiest month of CLO new issuance for the year driven by refinancing and reset activity, front-running the soon-to-be-implemented Dodd-Frank risk retention requirements. In residential mortgage land, agency conforming limits were raised from $417,000 to $424,000 for the first increase since 2006! Political developments such as US Treasury Secretary pick Steven Mnuchin are notable, but it is far too early to jump to conclusions.

- **High Yield:** Earlier this week, OPEC and several non-OPEC countries agreed to output reductions in 2017. Assuming none of the agreement's adherents defect, US shale producers, many of which are High Yield issuers, stand to profit from tighter global oil supplies.

- **Emerging Markets:** India published third quarter GDP growth of 7.3% y/y, slightly below consensus estimates. The service sector (+8.9% y/y) remains the key driver of growth, while manufacturing (+7.1% y/y) also performed well. However, India's manufacturing Purchasing Mangers' Index data for November showed a decline to 52.3 from 54.4. It's likely that India will see a temporary growth slowdown in the fourth quarter and early 2017 due to the government's recent decision to switch out large amounts of currency in the heavily cash-driven economy.

- **Municipals:** Municipal bonds are currently offering a very compelling relative value proposition, as the ratios of Municipal to US Treasury yields exceed 100% across the yield curve for the first time in the past three years. Factoring in the tax-exempt status, the convergence of short tax-exempt and corporate yields offers added value on a Taxable Equivalent Yield (TEY) basis.

- **Currencies:** This week the British pound climbed to its highest level since its flash crash back in October. Comments by Brexit Secretary Davis and Chancellor Hammond suggesting the UK Government is considering paying for access to the European single market marked a noticeable departure from the previous rhetoric. The FX market reacted positively to the news as many perceived this as weakening the odds of a "hard Brexit."