Payden&Rygel
Investment Management

WEEKLY MARKET UPDATE

July 15, 2016

MARKET LEVELS

	Friday*	Last week	Dec. 31, 2015	One year ago
Dow Jones Industrial Avg	18,533	18,147	17,425	18,120
S&P 500	2,166	2,130	2,044	2,124
NASDAQ	5,037	4,957	5,007	5,163
Russell 2000	1,206	1,177	1,136	1,273
DJ STOXX Europe 600 (€)	338	327	366	405
Nikkei Index (¥)	16,498	15,107	19,034	20,600
MSCI EM Index	439	425	411	452
Fed Funds Target	0.25%-0.50%	0.25%-0.50%	0.25%-0.50%	0.00%-0.25%
2-Year Treasury Yield	0.71%	0.61%	1.05%	0.66%
10-Year Treasury Yield	1.59%	1.36%	2.27%	2.35%
U.S. $ / Euro	1.11	1.11	1.09	1.09
U.S. $ / British Pound	1.33	1.30	1.47	1.56
Yen / U.S. $	105.91	100.54	120.22	124.15
Gold ($/oz)	$1,326.47	$1,366.38	$1,061.42	$1,145.40
Oil	$45.99	$45.41	$37.04	$50.91

**Levels reported as of 7:44 a.m. PDT*

MARKET RETURNS

Year-to-date (12/31/15 – 07/15/16)*

Dow Jones Indus Avg.	7.91%
S&P 500	7.22%
NASDAQ	1.33%
Russell 2000	7.03%
MSCI World Index	2.43%
DJ STOXX Europe 600	-5.10%
MSCI EM Index	6.83%

**Returns reported as of 7:44 a.m. PDT*

Year-to-date (12/31/15 – 07/14/16)

90 Day T-Bill	0.16%
2-Year Treasury	1.18%
10-Year Treasury	7.66%
ML High Yield Index	12.11%
JPM EMBI Global Diversified	12.63%
JPM Global Hedged	7.03%

RECAP OF THE WEEK'S ECONOMIC RELEASES

Date	Report	Survey	Actual	Prior	Details
07/15	(EC) CPI YoY	0.10%	0.10%	0.10%	Headline CPI in the Euro area returned to positive territory after registering zero or negative prints during the last four months.
	(US) CPI Ex Food and Energy YoY	2.20%	2.30%	2.20%	US core CPI has now been at or above 2% for 8 months now.

ECONOMIC OVERVIEW

The "jobs report"—the monthly report from the Bureau of Labor Statistics on payroll and household employment—seems to take on greater importance with each passing month. For years we've argued that investors pay too much attention to the monthly change in nonfarm payrolls, losing sight of the bigger picture.

This week we received data from the Bureau of Labor Statistics that allows us to present to you a better picture of the jobs market. Here's what matters: over the last 12 months, 62.3 million (yes, million!) were hired, while 59.8 million left jobs (mostly of their own volition as layoffs are at record lows). The more turnover, the better. On net, looking through the monthly volatility, the US created 2.5 million new jobs over the past year, or about 200,000 per month—a stellar period for the US labor market.

US MARKETS:

TREASURIES

- A positive 287,000 jobs in June was not enough to get the Treasury market down as the post data selloff was very short lived and the flattening of the curve resumed to end last week. This week was a different story as a market disappointing Bank of England rate decision and weakening Japanese Yen helped risk assets trade well to the dismay of Treasury investors.

- The bond finally gave it all up outright and on the curve after 68.5% indirect auction buyers had to have them the day before. Clearly the market was long into and out of the 3-year, 10-year and 30-year supply with the marginal buyer not stepping in as yields leaked higher. All auction clearing levels are now underwater. We learned this week that Japanese investor bought $24 billion in overseas bonds which at least partially explains last week's rally to the lowest long end yields on record. Treasuries continue to be at the mercy of USDJPY and central bank expectations as momentum for the product remains negative.

LARGE-CAP EQUITIES

- The U.S. Equity Market rallied for the week on a strong start to the earnings season and better-than-expected economic data. At the time of writing, the S&P 500 index is on the verge of posting record closing highs for five consecutive days, a feat that has not been seen in nearly two decades. Growing expectations of additional stimulus measures from the world's largest economies have lifted risk sentiment globally and capped market volatility for the time being.

- The S&P 500 and NASDAQ Composite indices both closed the week up approximately 1.5%, which was the third consecutive weekly gain of above 1% for both indices. The Dow Jones Industrial Average bested the three major US indices after climbing 2% for the week. The higher beta small-cap stocks outperformed large-cap stocks. In terms of style, large-cap value stocks outperformed large-cap growth stocks. The best

performing sectors were materials and industrials, while the worst performing sectors were utilities and consumer staples.

- Earnings season kicked off this week with banks headlining corporate results. JPMorgan and Citigroup both beat 2nd quarter earnings estimates, while Wells Fargo met analysts' expectations. Other notable earnings beats this week were aluminum company Alcoa and freight transportation company CSX Corp, which provided a boost to other materials and industrials companies.

- In fund flow news, Lipper reported domestic equity mutual funds saw investors redeemed $5.9 billion for the week, which extended the streak of weekly redemptions to 23. International equity mutual funds also saw redemptions with investors redeeming $1.5 billion for the week.

CORPORATE BONDS

- The second week of July started out quiet with $17 billion issued versus $25 billion expected. The big expected deal of the week was Teva, a very well telegraphed deal expected to be anywhere from $11 to $15 billion. The large issue is for the partial funding of Teva's purchase of Allergan's generic business. Given the likely size of the deal, it is expected to be rated mid-BBB, a notch below their outstanding debt. Teva will likely issue early next week across the curve, focused on the front-end.

- In corporate news, this week saw the largest one-day inflow ever to hit a corporate ETF, at over $1.1 billion. This represents the growing interest in US corporate bonds as investors worldwide continue to seek yield while surrounded by negative rates. The Corporate Index Option-Adjusted Spread (OAS) finished the week at +144, 11 tighter on the week, with no visible impact of Brexit remaining. Overall metals/mining were 16 tighter; energy was 15 tighter. Senior financials were four tighter and subordinated financials were eleven tighter. Industrials were eleven tighter and utilities were tighter by three.

MORTGAGE-BACKED SECURITIES

- Agency mortgages outperformed US Treasuries as higher rates provided some breathing space away from 'red zone' refi triggers. Pass-through spreads compressed five-to-seven basis points led by lower coupons. Originator activity was heavy but met with decent demand from central banks and money managers closing short-term mortgage basis underweights. Ginnie Mae (GNMA) mortgages posted strong relative results versus conventionals as price payups expanded. GNMA mortgages tend to attract Asian investors that desire 'full, faith and credit' assets and buy when at higher yield entry points. Specified pool stories remain the focus as pools with key attributes carry higher premiums to mitigate faster forecasted prepayments.

- For the week, the 30-year current coupon versus the 10-year US Treasury narrowed nine basis points to 75 basis points. According to Freddie Mac, the 30-year mortgage rate held steady at 3.42%.

ASSET-BACKED SECURITIES

- This was the heaviest week of ABS new issuance in 2016. The vast majority of deals both upsized and priced inside of initial price talk. The most glaring example was the inaugural Verizon smartphone deal that was alleged to be 12 times oversubscribed. It was a tremendous success for Verizon, and not so much for investors hoping for a first time collateral type concession. Initial price guidance started at swaps+75/85, then moved to swaps+65/70. It priced at swaps+55 for an all in yield of 1.431%.

- Secondary trading support from the lead managers, BAML, Barclays and Mitsubishi is very strong, and the market is currently swaps+43/41. While this type of activity can happen in the corporate bond area, it rarely if ever happens in the ABS market. Demand is still strong as evidenced by the CPS subprime auto loan deal announced yesterday, and has been taken subject in less than 24 hours. Marlette will represent the first marketplace lending deal post the Lending Club fiasco.

MUNICIPAL BONDS

- Coming off of an abysmal $2.5bln of new issuance last week, we saw a healthy calendar of close to $9bln this week. This healthy bit of supply provided some much needed resistance to lower rates as investors remain somewhat wary of today's the low nominal yield environment. Municipal rates moved higher over the last week in sympathy with Treasury rates but did so with far less volatility. Tenors 6 years and longer increased by an average of 10 basis points. We've begun to see relative values soften as the ratios between municipal rates and Treasury rates have inched closer to fair value.

- Market participants have been active this week as many have chosen to use the modest backup in rates as an opportunity to spend cash. Investor orders have exceeded the total of new issuance, causing many deals to re-price to lower yields. July marks the beginning of a period of seasonally light supply and we believe this week's volume was partially due to the light volume last week. Demand for California bonds has outstripped supply and has driven down new issue spreads. For these reasons, we expect that municipal yields could outperform Treasury rates. The next 4-6 weeks should to consist of heavy participation in low supply volume and frenzied buying on any uptick in rates.

HIGH-YIELD BONDS

- The BofA Merrill Lynch BB/B cash pay constrained index was up +1.16% this week as spreads tightened by 40 basis points to an option-adjusted-spread of +427 basis points. The BofA Merrill Lynch BB/B index that excludes utilities and energy was up +1.05% for an OAS of +411 as the spread of that index tightened by tightened by 39 basis points. The BofA Merrill Lynch Euro BB/B constrained index was up +0.71% as the spread of that index tightened by 34 basis points for an OAS of +391.

- High-yield was sharply higher this week as inflows poured in to the asset class and accounts struggled to spend down growing cash balances. Buyers found offerings hard to come by as new issue has been quiet the past few weeks and dealer inventories are relatively light. Secondary trading volumes spiked on Tuesday despite the lack of the usual catalyst of new issuance that did not gain traction until Wednesday.

- Flows into high-yield mutual funds this week totaled $4.35 billion and was the second largest inflow on record, and follows an inflow of $1.8 billion last week. Leveraged loan funds had their positive flow in five weeks as $136 million came into the asset class. Dealer inventories of non-investment grade corporate bonds at the end of June stood at $4.2 billion versus a range of negative $110 million to $8.4 billion since April 2013. High-yield trading volumes jumped to $17 billion on Tuesday after $11.7 billion changed hands on Monday. The year-to-date average daily volume is $12.8 billion versus an average of $10.7 billion in 2015.

- New issue picked up this week as $3.87 billion priced across eight tranches. This was the busiest week for new issue since the week of June 20th. The market was primed and ready for new issuance after the weeks long drought, and the result was order books being heavily oversubscribed and deals pricing through the tight end of initial price talk as issuers squeezed investors for the cheapest funding possible.

- The largest deal of the week was a $900 million 8-year senior unsecured note brought by Nexstar Broadcasting. The Irving Texas-based television broadcasting company priced the new B3/B+ rated notes at a spread of 428 basis points over treasuries to yield 5.625%. Use of proceeds for the new notes is for the acquisition of television broadcaster and digital media company Media General. The new notes moved up one point when freed to trade as the spread tightened by twenty basis points.

INTERNATIONAL MARKETS:

GLOBAL BONDS AND CURRENCIES

- Global government bonds lost ground this week amid a fresh rally in risk sentiment that supported the equity market. A combination of strong corporate earnings and better than expected economic data in the US undermined safe-haven assets and yields rose across the board. In Europe, sovereign bonds moved in sympathy with their US counterparts and the yield on the benchmark 10-year note finished the week 17 basis points higher. In the UK, the appointment of Theresa May as Prime Minister helped to ease some of the post-Brexit nervousness that had dominated the market since the referendum. The unexpected decision of the Bank of England to keep rates unchanged rather than introduce a cut additionally weighed on Gilt prices. The yield on the 10-year note, which had touched a fresh record low earlier in the week, climbed 7 basis points by Friday.

- In the currency markets, sterling climbed against most major currencies after the Bank of England's policy meeting on Thursday eased rate cut expectations. The "safe-haven" Japanese yen sold off in response to the broader risk-on sentiment in the market, while the euro climbed against the US dollar this week despite some strong retail sales data in the US supporting the greenback. The Canadian dollar was stronger versus the US Dollar after the Bank of Canada left interest rates unchanged.

EMERGING-MARKET BONDS

- Emerging market (EM) dollar-pay spreads tightened 26 basis points (bps) to 355 bps over US Treasuries, while local debt yields fell 9 bps to 6.21%. EM currencies were stronger against the US dollar, led by South African rand (+3.8%), Brazilian real (+3.6%) and Russian ruble (+2.7%).

- Economic data from China generally surprised to the upside. For the second quarter of 2016, GDP growth expanded 6.7% year-over-year (y/y), similar to the first quarter and ahead of expectations for a modest slowdown to 6.6% y/y. Industrial production for June improved to 6.2% y/y (from 6.0% the prior month), while retail sales grew 10.6% y/y (from 10.0%). Data on domestic lending and financing also printed significantly above consensus. Among the weaker data points were fixed asset investment, which slowed to 9.0% year-to-date y/y (from 9.6% the prior month). Also, while the contraction in exports (4.8% y/y) was anticipated, imports declined 8.4% y/y, a larger drop than expected.

- Among monetary policy decisions, Bank Negara Malaysia surprised markets by cutting rates 25 bps to 3.0%. Officials anticipated modest inflation dynamics through 2016, while expressing higher concern about a softer global growth backdrop. Kazakhstan also unexpectedly cut its benchmark rate by 200 bps to 13%, as officials believe the country's high inflation is set to decline, while economic activity remains slow. Central banks in Chile and Peru left policy rates unchanged at 3.5% and 4.25%, respectively. Chilean officials maintained a hawkish bias as inflation continues to hover just above its 2-4% target range, while policymakers in Peru expect inflation to sustain its recent decline and move back into the 1-3% range.

- The IMF's executive board approved disbursement of $364 million to Ecuador under the institution's rapid financing instrument. Ecuador had requested IMF assistance in light of the highly damaging earthquake that hit the country in April, which has exacerbated funding pressures brought on by the oil shock.

HIGHLIGHTS OF NEXT WEEK'S ECONOMIC RELEASES

Date	Report	Consensus	Last
07/18	(US) NAHB Housing Market Index	60	60
07/19	(UK) CPI YoY	0.40%	0.30%
	(UK) CPI Core YoY	1.30%	1.20%

	(UK) House Price Index YoY	--	8.20%
	(US) Housing Starts	1165k	1164k
	(US) Housing Starts MoM	0.10%	-0.30%
	(US) Building Permits	1150k	1138k
	(US) Building Permits MoM	1.20%	0.70%
07/20	(UK) ILO Unemployment Rate 3Mths	5.00%	5.00%
	(EC) Consumer Confidence	-8	-7.3
07/21	(UK) Retail Sales Ex Auto Fuel MoM	-0.60%	1.00%
	(UK) Retail Sales Ex Auto Fuel YoY	4.80%	5.70%
	(EC) ECB Main Refinancing Rate	0.00%	0.00%
	(EC) ECB Deposit Facility Rate	-0.40%	-0.40%
	(US) Existing Home Sales	5.47m	5.53m
	(US) Existing Home Sales MoM	-1.10%	1.80%
	(US) Leading Index	0.20%	-0.20%
07/22	(CA) Retail Sales MoM	0.00%	0.90%
	(CA) Retail Sales Ex Auto MoM	0.20%	1.30%
	(CA) CPI YoY	1.70%	1.50%
	(CA) CPI Core YoY	2.00%	2.10%
	(US) Markit US Manufacturing PMI	52	51.3