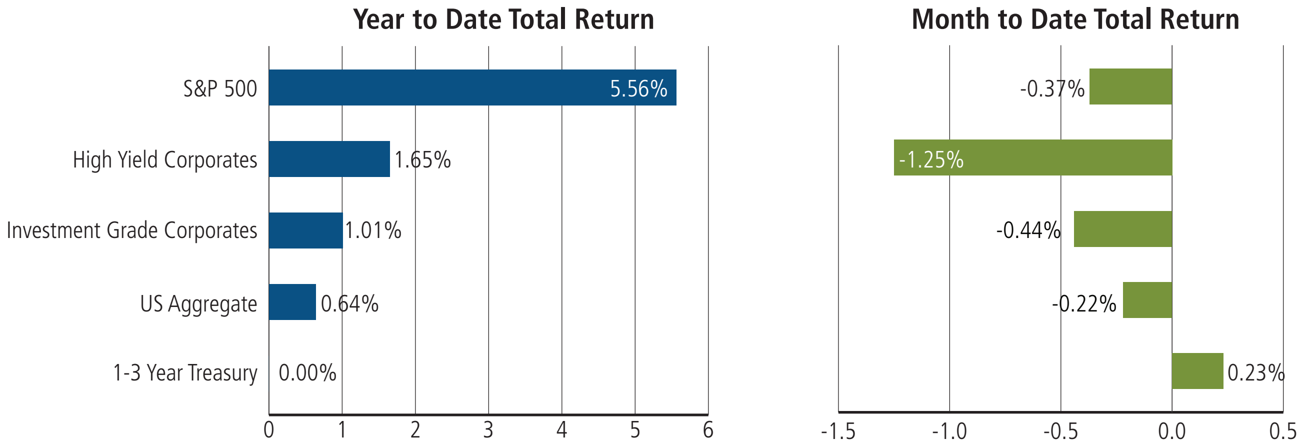
Week Ending **March 24, 2017**

The U.S. Labor Market Needs Schoolin', We're Not Foolin'

Economic Overview:

In a speech given this week at a Federal Reserve research conference, Fed Chairwoman Janet Yellen remarked on the importance of education in fostering strong economic growth and positive labor market outcomes. Indeed, the labor market data substantiate the Chair's suggestions. Among those Americans who did not complete high school, the unemployment rate is not only 3.3 times higher than the unemployment rate for those with college degrees, joblessness for the less educated has also lately been rising. By contrast, for those with a bachelor's degree or higher, the unemployment rate has fallen steadily since mid-2009 and, at 2.4%, is well below the overall unemployment rate (4.7%). Whether or not formal schooling is the main reason highly educated laborers find work in greater proportion, the empirical results are clear: school is cool in the labor market.

Total Returns by Asset Class



Highlights of the Week:

- **Equities:** The US Equity market posted its worst weekly loss of the year after snapping a streak of 109 days without a 1% decline on Tuesday. A few industry bellwethers offered investors a break from all the healthcare reform headlines after reporting quarterly results this week. Nike and FedEx may have preferred to skip the break as both companies reported mixed results, driving share prices lower.
- **Corporates:** $17 billion cleared the new issue pipeline this week, as the recent trend of increased volatility and heightened price sensitivities continued. $350 billion year-to-date, indigestion of recent new issue, the recent rally in treasuries along with the uncertainty of the outcome of the health-care law all contributing to recent market angst.
- **Securitized Products:** The CLO refinance effort marched forward with 9 more deals pricing this week. With only one third of eligible CLOs having been refinanced, expect more to follow. The rationale is simple. The leveraged loan spreads (assets) have shrunk, but the CLO reset margins (liabilities) are fixed, so the result is squeezed cash flow to the equity holder of the CLO. So, how does the equity holder respond?
- **High Yield:** High yield has seen steady outflows in March as jittery ETF investors sold on concerns about oil prices, rate increases, and tight valuations. Spreads have widened 52 basis points since the tights on March 2nd, giving nimble investors the opportunity to deploy capital at more attractive valuations.
- **Emerging Markets:** Argentina reported a fourth quarter 2016 GDP contraction of 2.1% year-over-year, roughly in line with consensus estimates. More encouraging was the positive quarter-over-quarter growth figure of 0.5%, which was the strongest print since mid-2015, signaling that the country should emerge from recession this year.
- **Currencies:** In a week that was low on central bank activity, the Reserve Bank of New Zealand kept interest rates unchanged at 1.75%. The decision did not come as a surprise as the Bank had previously emphasized its commitment to keeping its monetary policy accommodative. The kiwi dollar lost some ground after the announcement; however, analysts believe that the recent softness is more likely due to weaker dairy prices, rather than central bank action.
- **Municipals:** Following a dovish Fed hike, municipals have rallied for the last seven consecutive days. The rally has been most pronounced on longer maturities, resulting in the municipal yield curve narrowing to a five-week low.