

WEEKLY GLOBAL Market Update

MARCH 6, 2017

Recap for the week ended March 3, 2017



MARKING HER LAST PUBLIC ADDRESS BEFORE THE FOMC'S MARCH MEETING, FED CHAIRWOMAN JANET YELLEN SPOKE IN CHICAGO ON FRIDAY. Yellen cited that if both economic and inflationary data continue to evolve in line with expectations, "a further adjustment of the federal-funds rate would likely be appropriate." This caused the federal-funds futures implied probability of a rate hike in March to soar to 94% on Friday, an increase of 50% week over week. This is a dramatic shift in sentiment due to more hawkish rhetoric from both Yellen and the Fed governors. The historically more dovish New York Fed president, William Dudley, was quoted as saying "the case for monetary-policy tightening has become a lot more compelling."

REVISED GDP GROWTH FOR THE FOURTH QUARTER OF 2016 CAME IN AT A LACKLUSTER 1.9% VERSUS EXPECTATIONS OF 2.1%. This disappointing figure juxtaposes other more solid economic results on the week. Chicago PMI numbers were encouraging with production, orders and employment all increasing in February. The index rose to 57.4 against survey expectations of 53.5. Conference board consumer confidence came in at a strong 114.8, beating expectations of 111. Personal income also beat marginally with 0.4% growth in January versus consensus expectations of 0.3%. The Federal Reserve's preferred inflation measure (the PCE) also marched higher, growing 0.3% and bringing the index more in line with the FOMC's inflation targets for a rate hike.

HEIGHTENED EXPECTATIONS OF A FED RATE INCREASE AND LARGELY POSITIVE ECONOMIC DATA DROVE U.S. YIELDS HIGHER ACROSS THE CURVE. The five-year Treasury yield increased the most at 20 basis points week-over-week, and the 2s30s curve flattened by four basis points. Quarter-to-date, the front end of the curve has sold off significantly, with the three-month LIBOR and two-year Treasury up 10 and 12 basis points to 1.10% and 1.31%, respectively. This is the highest that the three-month LIBOR has been since April 2009. Over the quarter, the yield curve has flattened dramatically at both the 2s10s and 2s30s intervals by 9 and 11 basis points, respectively. Mortgage spreads widened by three basis points in response to these significant moves across the yield curve.

U.S. PRESIDENT DONALD TRUMP TOOK A FAR MORE UNIFYING, TEMPERED TONE IN HIS SPEECH TO CONGRESS ON TUESDAY. In response, the S&P 500 continued its impressive rally to 2,383, up from 2,367 the week before. U.S. corporate investment-grade credit spreads continued to grind tighter by six basis points week over week and U.S. high yield tightened by an impressive 26 basis points. This marks a superb week of performance for risk assets.

CORE EUROZONE BOND MARKETS JOINED THE SELLOFF LAST WEEK. After having seen safe-haven buying, which had pushed the two-year yield down to record lows, the German market was the worst performing last week. The two-year yield increased by 14 basis points to -0.82% and the 10-year yield by 17 basis points to 0.35%. In contrast, yields in Italy and Spain fell, while yields in France increased by fewer than

U.S. INTEREST RATES

	3/3/17	2/24/17	12/30/16	12/31/15	1Q17 Δ BPS	2016 Δ BPS
3-month LIBOR	1.10%	1.05%	1.00%	0.61%	10	39
2-year Treasury	1.31%	1.15%	1.19%	1.05%	12	14
5-year Treasury	2.01%	1.81%	1.93%	1.76%	8	17
10-year Treasury	2.48%	2.31%	2.45%	2.27%	3	18
30-year Treasury	3.07%	2.95%	3.07%	3.02%	1	5

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GLOBAL 10-YEAR INTEREST RATES

	3/3/17	2/24/17	12/30/16	12/31/15	1Q17 Δ BPS	2016 Δ BPS
Canada	1.70%	1.60%	1.72%	1.39%	-2	33
Brazil	10.24%	10.24%	11.40%	16.51%	-117	-511
Mexico	7.33%	7.26%	7.42%	6.26%	-9	116
United Kingdom	1.18%	1.08%	1.24%	1.96%	-5	-72
France	0.94%	0.92%	0.68%	0.99%	26	-31
Germany	0.35%	0.18%	0.20%	0.63%	15	-42
Italy	2.09%	2.19%	1.81%	1.59%	28	22
Spain	1.67%	1.69%	1.38%	1.77%	29	-39
Greece	6.95%	7.08%	7.02%	8.07%	-7	-105
Japan	0.07%	0.06%	0.04%	0.26%	3	-22

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BLOOMBERG BARCLAYS INDICES-OPTION ADJUSTED SPREADS

	3/3/17	2/24/17	12/30/16	12/31/15	1Q17 Δ BPS	2016 Δ BPS
U.S. Corporate (IG)	112	118	123	165	-11	-42
U.S. High Yield	349	375	409	660	-60	-251
Emerging Markets (USD)	253	263	288	389	-35	-101
MBS Fixed Rate	24	21	15	24	9	-9
CMBS	73	76	75	121	-2	-46
ABS	56	59	59	72	-3	-13
Municipal Bond Index*	123	127	142	81	-19	61

* Muni Spread = (Barclays Index YTW * 1.4577) - 10yr U.S. Treasury Prepared by Conning, Inc., Source: Barclays Indices, POINT ©2015-2017 Barclays Risk Analytics And Index Solutions Limited. Used with permission. Barclays and POINT are registered trademarks of Barclays Risk Analytics And Index Solutions Limited or its affiliates. ©2015-2017 Bloomberg, L.P.

CREDIT DEFAULT SWAP INDICES

	3/3/17	2/24/17	12/30/16	12/31/15	1Q17 Δ BPS	2016 Δ BPS
U.S. CDX IG	60	63	68	88	-8	-21
U.S. CDX HY	108	108	106	101	2	5
Euro IG	69	75	72	77	-3	-5
Euro HY	274	296	289	315	-15	-26
Sov Western Europe	36	39	32	19	5	12
Euro Senior Financial	86	95	94	77	-8	17

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MAJOR ECONOMIC RELEASES

MONDAY, MARCH 6

Factory Orders (Jan)
Durable Goods Orders (Jan)

TUESDAY, MARCH 7

Trade Balance (Jan)
Euro-zone GDP (Q4)

WEDNESDAY, MARCH 8

MBA Mortgage Applications (Mar 3)
ADP Employment Change (Feb)
Wholesale Inventories MoM (Jan)
U.K. Budget

THURSDAY, MARCH 9

Initial Jobless Claims (Mar 4)
ECB Meeting

FRIDAY, MARCH 10

Nonfarm Payrolls (Feb)
Unemployment (Feb)
U.K. Industrial Production (Jan)

five basis points. A formal investigation was launched into Francois Fillon, the conservative candidate in the French presidential election, who is accused of employing family members in fictitious jobs. He had previously said that he would stand down in such an event, but has now said that he will continue his campaign. He did suffer further indignity as his house was raided by investigators last week and more of his team, including his campaign treasurer and his spokesman, has resigned. The latest opinion polls suggest that the second round will be contested by Macron and Le Pen, with Macron winning by 62% to 38%. Inflation in the eurozone in February was estimated to have reached 2.0%, up from 1.8% in January, but core inflation remained at 0.9%, in line with market expectations. Core inflation has now remained within a 0.7% to 1.1% range for 22 months. There were no major surprises from other economic releases, as unemployment remained at 9.6% in January and the final PMI indices were little changed from the preliminary releases.

YIELDS IN THE U.K. INCREASED, WITH THE 10-YEAR YIELD INCREASING BY TEN BASIS POINTS TO 1.18%. The manufacturing and services PMI indices both fell further than expected last month; the manufacturing index fell by 1.1 points to 54.6 and the services index by 1.2 points to 53.3. U.K. Consumer Confidence eased back by just one point to -6, as expected, but the measure forecasting personal financial situation over the next year and the major purchase index both fell back.

AT THE ANNUAL CONGRESS MEETING, CHINA ANNOUNCED 2017 ECONOMIC POLICY GOALS, INCLUDING GDP GROWTH OF AROUND 6.5% YEAR OVER YEAR (VERSUS LAST YEAR'S TARGET OF 6.5%-7%), 11 MILLION NEW JOBS (VERSUS 10 MILLION OVER THE PAST 3 YEARS) AND 3% CPI INFLATION. Although the government kept the fiscal deficit target unchanged at 3%, the fiscal policy stance remains expansionary. Meanwhile, the government lowered the 2017 growth forecast for both M2 and total social financing by 1% to 12% year over year, reflecting its prudent monetary policy stance. It added that it has no plans to implement the hotly debated nationwide property tax this year. Recently, the Sino-Korean relationship deteriorated as China reportedly instructed travel agencies to suspend sales of all travel packages to Korea in retaliation against the upcoming deployment of THAAD in Korea. Led by extended upward momentum in the IT cycle, Korea's exports jumped 20.2% year over year in February and industrial production rebounded 3.3% month over month in January. China's official and Caixin manufacturing PMIs rose in February while their service counterparts fell. Elsewhere, all manufacturing PMIs except for Indonesia, Singapore and Taiwan improved. In February, CPI inflation moderated for Korea and Thailand but accelerated for Indonesia. Bank Negara Malaysia stayed put on rates, citing modest upside in core inflation.

GLOBAL EQUITY AND COMMODITY INDICES

	3/3/17	2/24/17	12/30/16	12/31/15	1Q17 Δ %	2016 Δ %
S&P 500	2,383	2,367	2,239	2,044	6.8%	12.0%
DJ Stoxx 50	3,403	3,304	3,291	3,268	3.7%	4.8%
FTSE 100	7,374	7,244	7,143	6,242	4.1%	19.2%
DAX	12,027	11,804	11,481	10,743	4.8%	6.9%
MSCI Asia ex Japan	559	567	514	500	8.8%	5.7%
Nikkei	19,469	19,284	19,114	19,034	1.9%	2.4%
Hang Seng	23,553	23,966	22,001	21,914	7.5%	4.3%
Shanghai SE	3,218	3,253	3,104	3,539	3.7%	-10.5%
MSCI EAFE	1,757	1,751	1,684	1,716	4.8%	1.6%
MSCI BRIC	264	268	242	221	9.3%	12.4%
WTI Crude Oil (\$/bbl)	\$53	\$54	\$54	\$37	-0.7%	45.0%
Gold (Per Troy oz)	\$1,235	\$1,257	\$1,152	\$1,061	7.1%	8.6%
CRB Commodity Index	434	432	423	375	2.7%	12.9%

Equity index returns include dividend reinvestment

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U.S. BOND MARKET PERFORMANCE

	MAR '17 EXCESS	MAR '17 NOMINAL	2017 EXCESS	2017 NOMINAL
U.S. Aggregate	0.05%	-0.66%	0.17%	0.20%
Treasury	N/A	-0.73%	N/A	-0.01%
Govt-Related	0.16%	-0.47%	0.67%	0.71%
Munis (TE)	N/A	-0.56%	N/A	1.12%
EM Aggregate	0.38%	-0.32%	2.63%	2.63%
Corporate IG	0.19%	-0.69%	0.72%	0.76%
Corporate HY	0.62%	0.14%	3.02%	3.07%
MBS	-0.05%	-0.62%	-0.25%	-0.18%
ABS	0.08%	-0.16%	0.13%	0.19%
CMBS	0.13%	-0.58%	0.22%	0.25%

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CURRENCY EXCHANGE RATES

	3/3/17	2/24/17	12/30/16	12/31/15	1Q17 Δ %	2016 Δ %
Yen per USD	114.04	112.12	116.96	120.22	-2.5%	-2.7%
USD per Euro	1.06	1.06	1.05	1.09	1.0%	-3.2%
USD per GBP	1.23	1.25	1.23	1.47	-0.4%	-16.3%
GBP per Euro	0.86	0.85	0.85	0.74	1.1%	15.8%
CAD per USD	1.34	1.31	1.34	1.38	-0.5%	-2.9%
USD per AUD	0.76	0.77	0.72	0.73	5.4%	-1.1%

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CONNING SECTOR STRATEGY SUMMARY

OVERWEIGHT	MARKETWEIGHT	UNDERWEIGHT
MBS	ABS	Agencies
TIPS	IG Corporates	EM - Corporate
European - EU Corporates	European Structured	EM - Sovereign
	U.S. Equities	Treasuries
	Asian Equities	European Governments
	CMBS	High Yield Corporates
	Municipals	
	European - U.K. Corporates	

U.S. Duration Stance = Neutral

Euro and U.K. Duration Stance = Short

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