



**PACIFIC**  
ASSET MANAGEMENT

# Economic and Capital Market Outlook

Dominic Nolan, CFA  
Senior Managing Director

# 4Q16

## Risk asset outperformance

- The 4<sup>th</sup> quarter saw the exceptional returns for credit assets
- The market response to the election of Donald Trump, which had been viewed by many as uncertain and disruptive, turned overnight into a strong equity rally and Treasury yields surged
- Measures of consumer sentiment and business confidence moved to 10 year highs as economic optimism greets the U.S. economy into 2017

# Credit risk outperforms

## Asset class performance

| Index                                  | 2016 Return (%) | 4Q16 Return (%) | Duration | Yield (%) |
|--|-----------------|-----------------|----------|-----------|
| Barclays US Corporate High Yield Index | 17.13           | 1.75            | 3.99     | 6.12      |
| Credit Suisse Leveraged Loan Index     | 9.88            | 2.25            | 0.25     | 5.45      |
| Barclays US Corporate Index            | 6.11            | -2.83           | 7.21     | 3.37      |
| Barclays US Intermediate Corporate     | 4.04            | -1.84           | 4.31     | 2.85      |
| Barclays Aggregate Index               | 2.65            | -2.98           | 5.80     | 2.61      |
| Barclays US Treasury Index             | 1.04            | -3.84           | 6.00     | 1.89      |
| Barclays Agency MBS Index              | 1.67            | -1.97           | 4.49     | 2.85      |

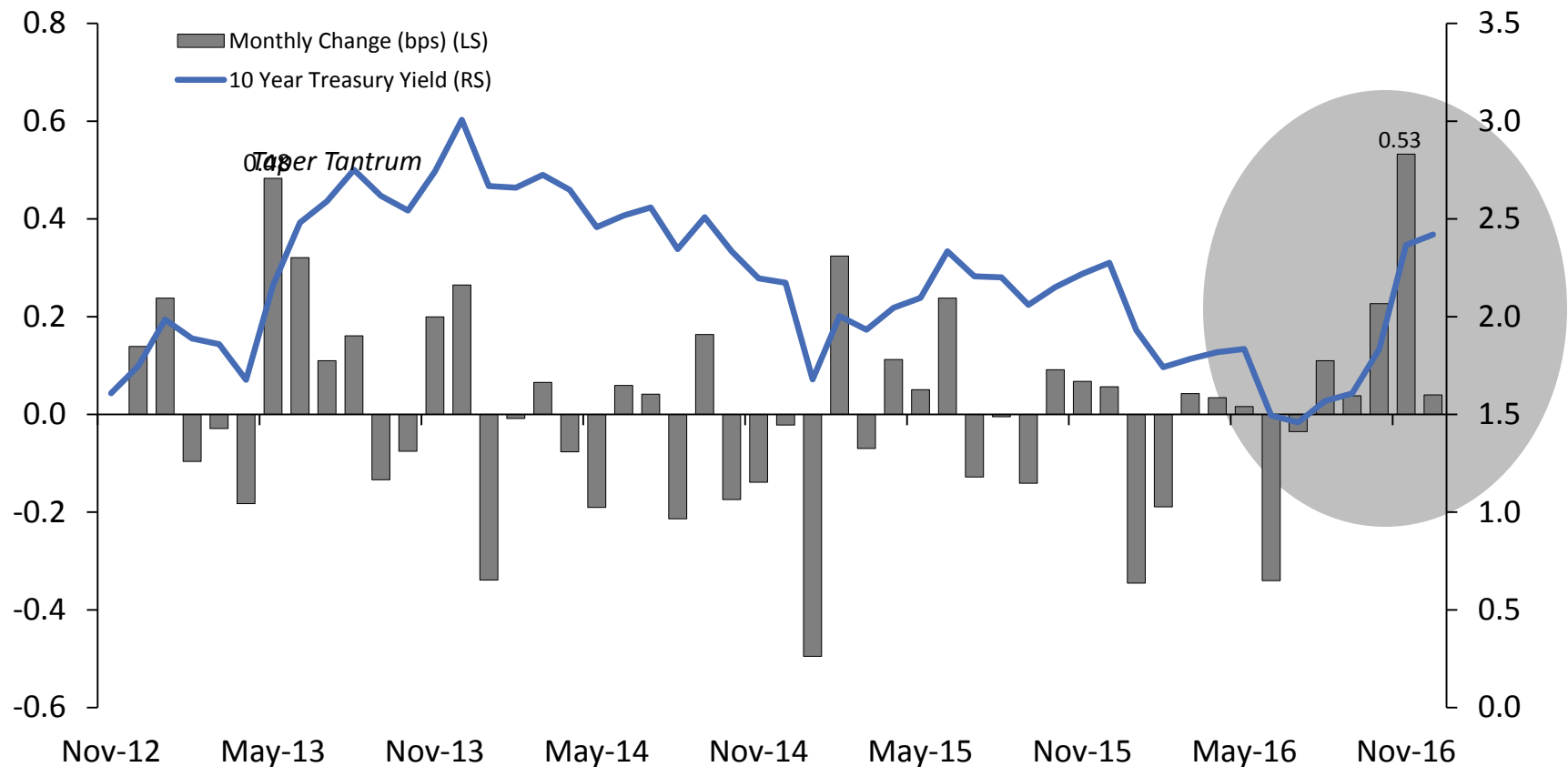
Source: Barclays, Credit Suisse, as of December 31, 2016

Yield is as of December 31, 2016

CSLLI yield is quoted on a 4 year effective yield; all other yields are quoted on a yield to worst basis

# The Trump Effect

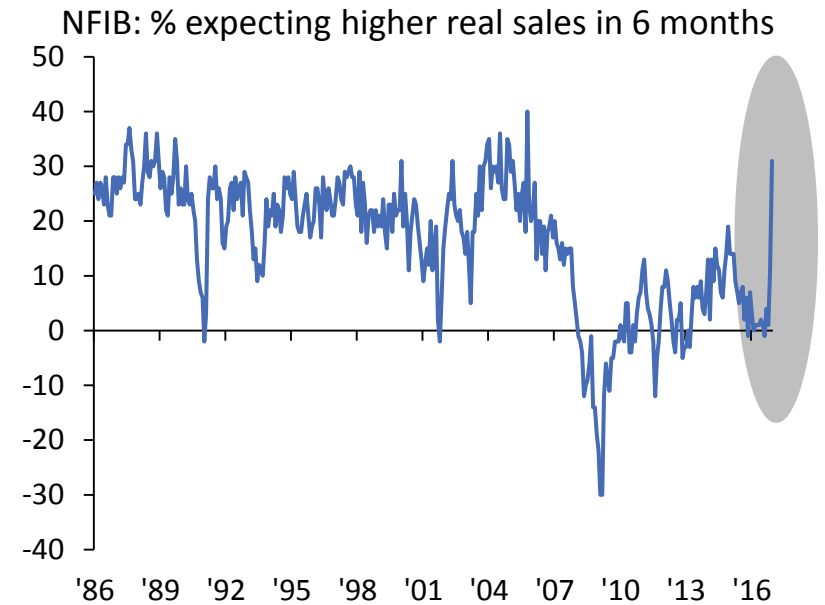
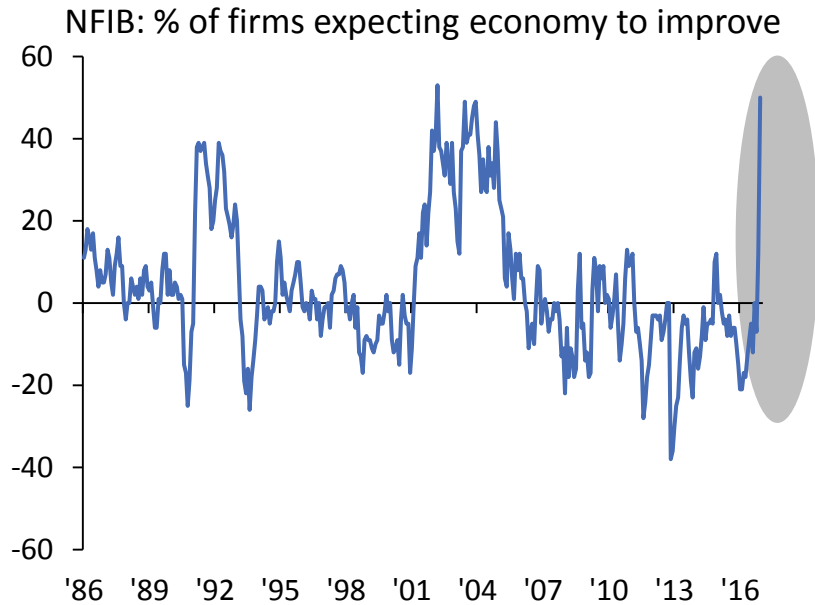
Economic optimism drives reflationary market response



Source: Barclays, as of December 31, 2016

# The Trump Effect

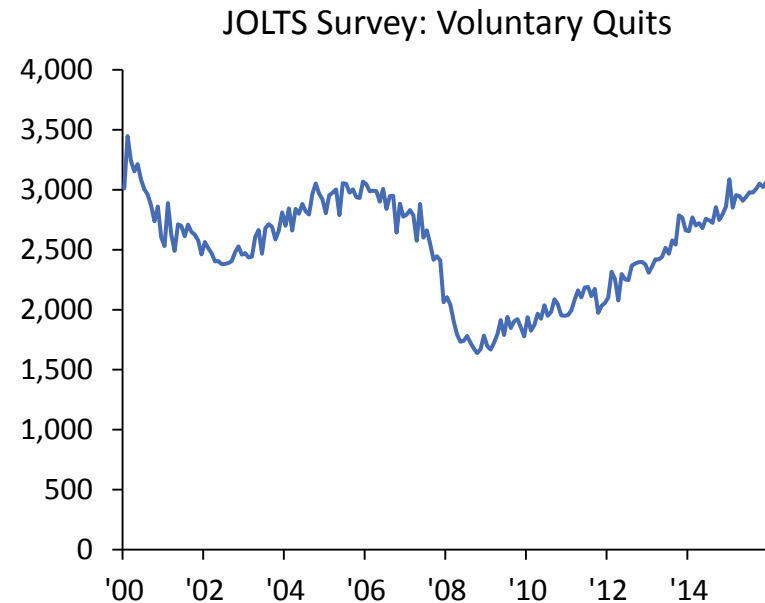
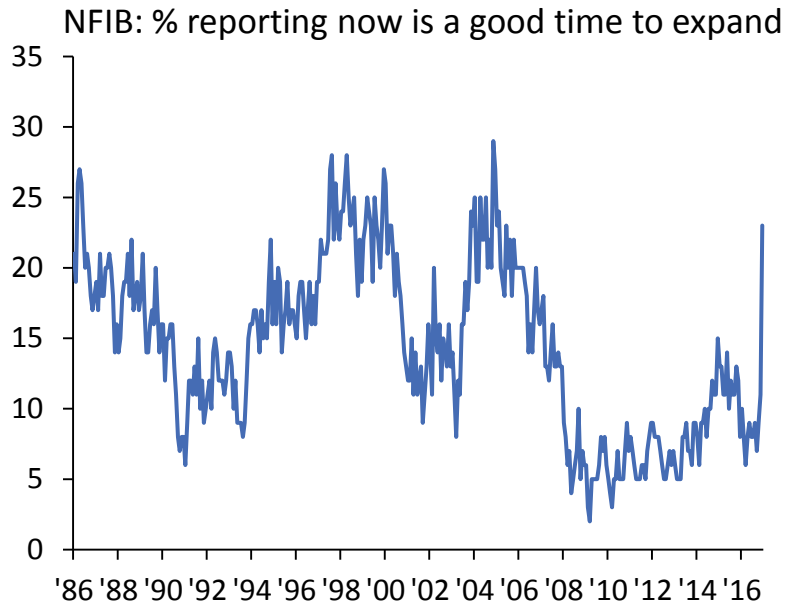
## High expectations for growth?



Source: NFIB, Strategas Research Partners. As of December 1, 2016

# The Trump Effect

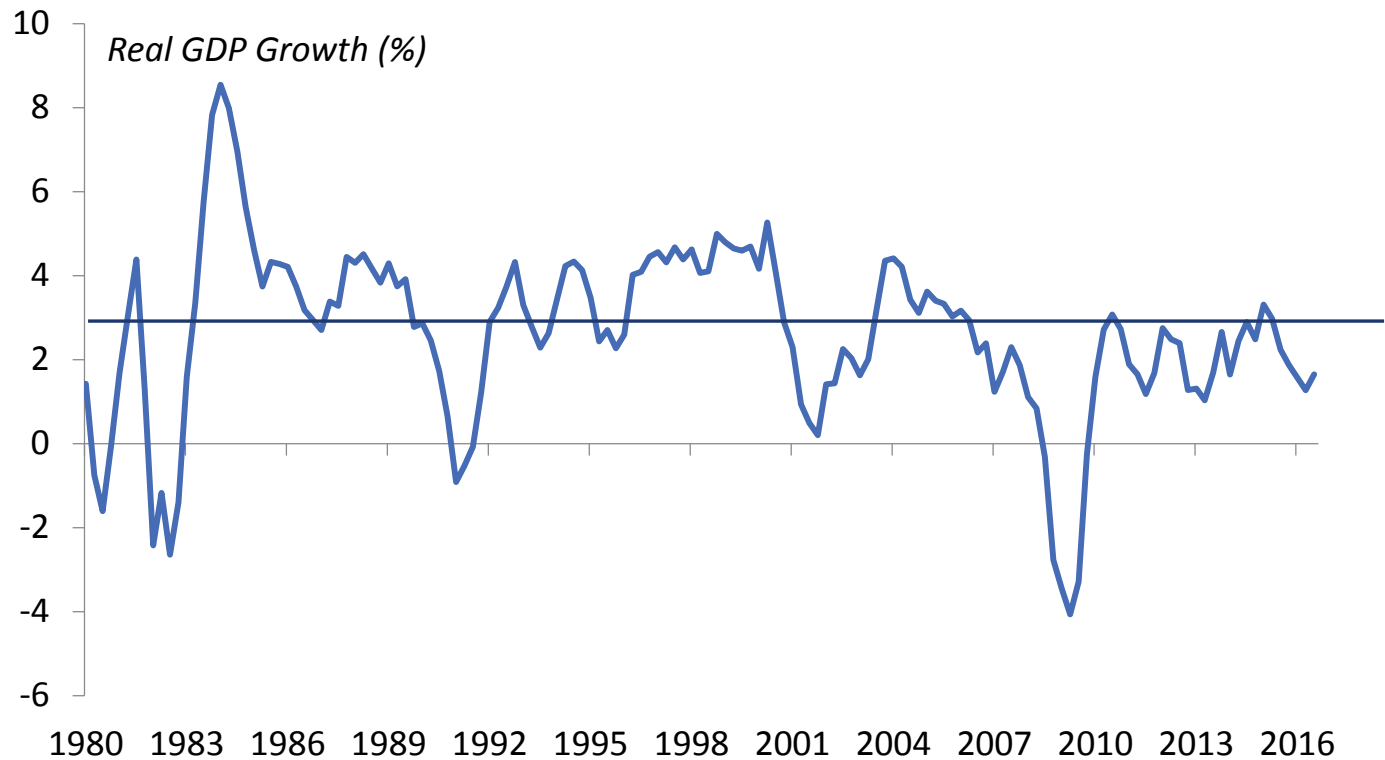
Will sentiment turn into hiring, spending, and capex?



Source: NFIB, Strategas Research Partners. As of December 1, 2016

# U.S. GDP

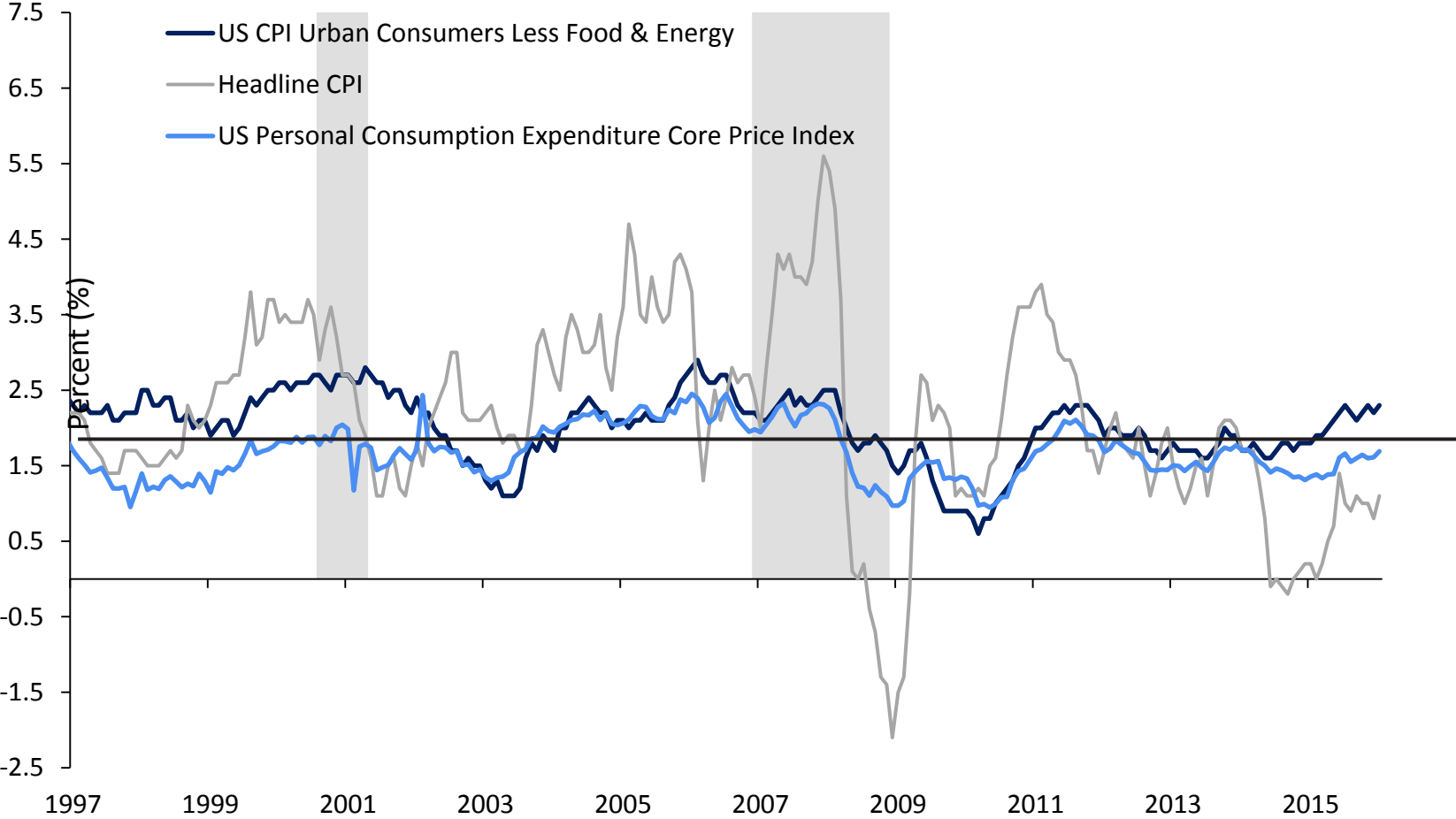
Can economic sentiment turn into growth?



Source: St. Louis Federal Reserve, as of October 1, 2016

# Inflation

## Will 2% be reached?

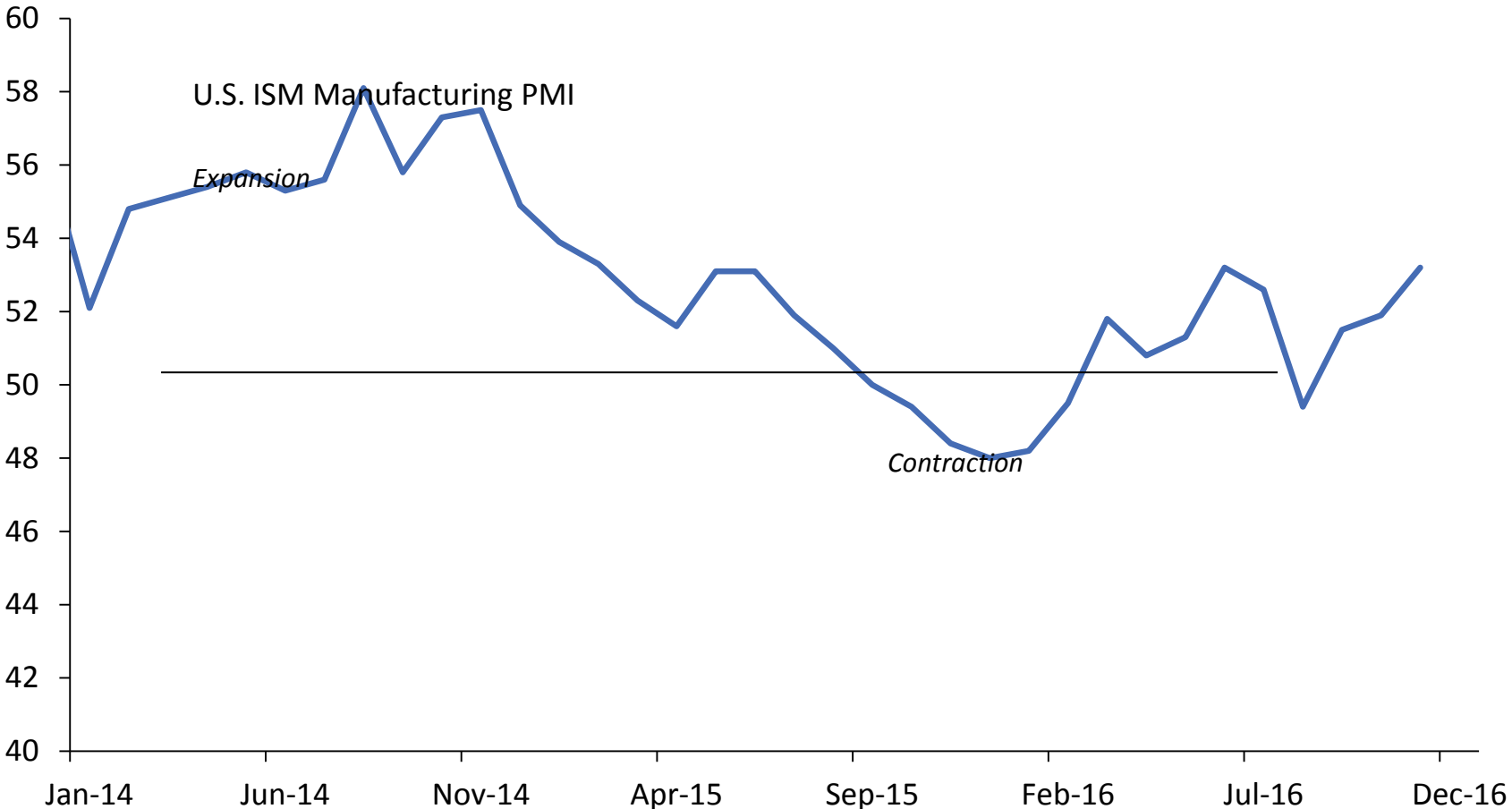


Source: St. Louis Federal Reserve, as of October 1, 2016



# Economic Data Supportive

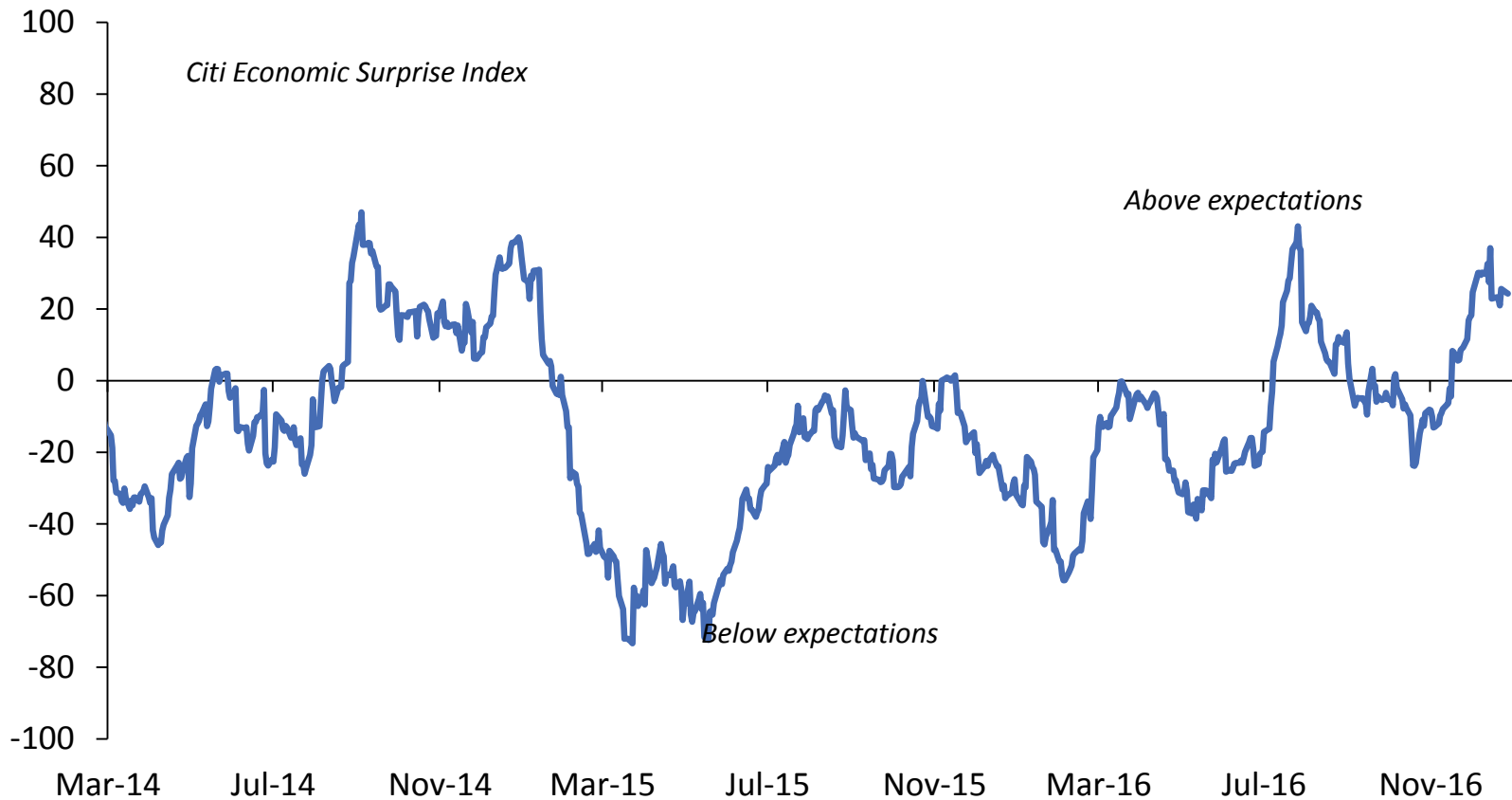
## U.S. Manufacturing PMI highest in two years



Source: Institute for Supply Management, as of December 2016

# Economic Data Supportive

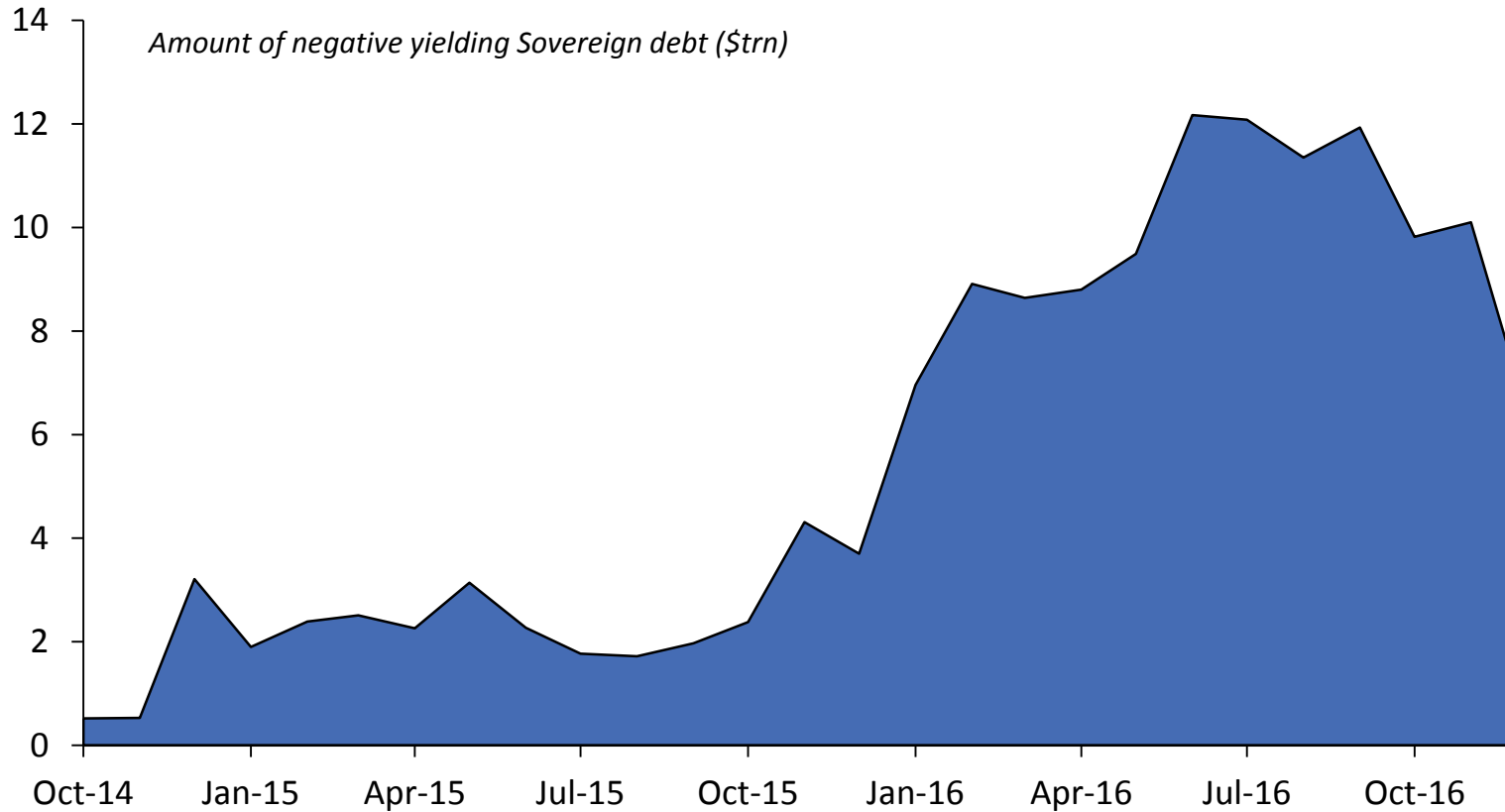
Broad based improvement given negative 2015 sentiment



Source: Bloomberg, as of December 21, 2016

# Foreign demand for U.S. Corporate debt

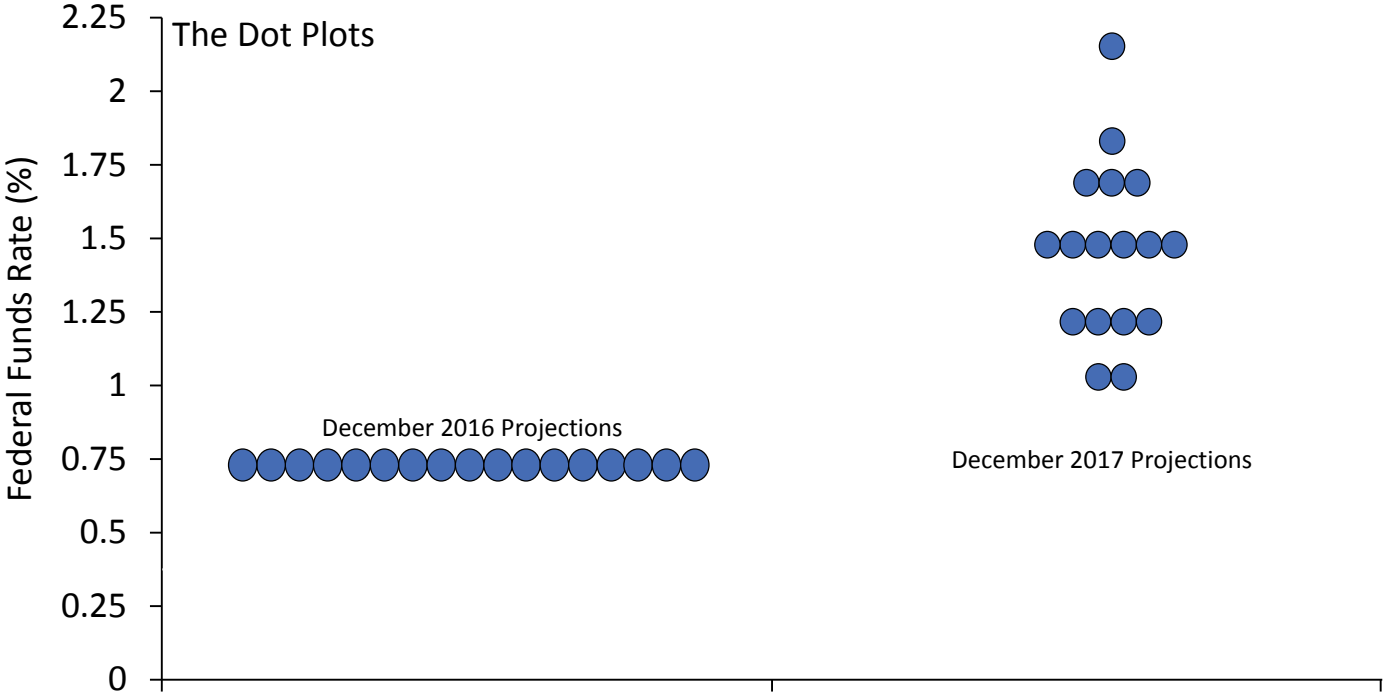
As investors grapple with negative interest rate policies (ZIRP)



Source: Bloomberg, as of November 21, 2016

# Federal Funds Rate

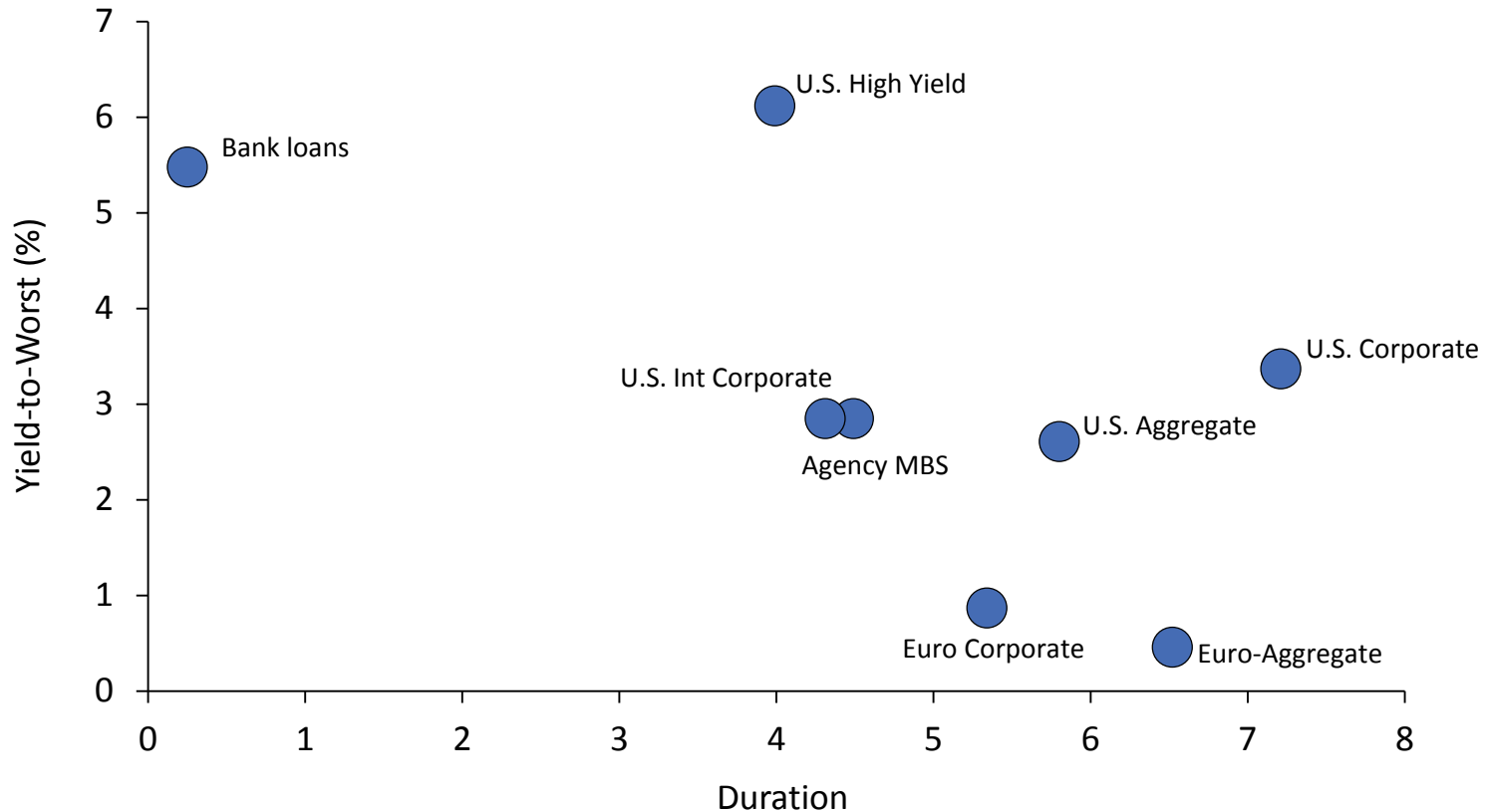
Uncertain through wide dispersion in forecasts



Source: Federal Reserve, as of December 2016 FOMC Meeting

# Relative value of U.S. credit

Favorable valuations coupled with better U.S. growth outlook



Source: Barclays, Credit Suisse, as of December 31, 2016

# Market Outlook

## What to watch for

- Market evaluation of new administration's policies are that of increased GDP with increased inflationary pressures
- Details regarding major policy changes will be of utmost importance
- Market is anticipating new administration will govern differently than he campaigned
- Things to monitor closely:
  - How much can the new administration get through Congress?
  - How much of an effect will it have on GDP growth?
  - What are the long-term impacts?