Parametric

TRANSCRIPT:

Fixed Income Five with Kevin Lynyak

Hi folks, this is Kevin Lynyak Fixed Income Portfolio Manager at Parametric. All right, so we're here to talk about the impressive job data that has bold moving much higher so for the month of September we saw the nonfarm payroll that come in much stronger than expected. 254,000 jobs versus expectations of 150,000 jobs, also revision to prior months of 72,000 jobs. So we go back just a month ago we're looking at the three month moving average at 116,000 jobs. We had a couple soft months there in July and August of job status and I think this is why we got the fed moving 50 bases points.

And then it looks like it's just picked up recently and I think the jobs games were not surprising, but fairly broad-based you look at the household survey we saw sizable increase in jobs this month. They're also across a lot of different sectors leading the way we leisure, hospitality, healthcare and federal state government and construction jobs so I think the job growth was fairly broad-based.

The Sahm rule looks less ominous after another fall in the unemployment rate few months ago 4.3% last month. It was 4.05% rounding up to 4.1% . So, "Sahm" kind of wonderful For you Mary Stewart Masterson fans so the rule there is ticking down. What is the Sahm again? well at all past recessions go back to 1990. We've seen the unemployment rate pick up a half percent before all recessions Fed Chair Powell was asked about this recently and he called it a "statistical regularity" so it doesn't necessarily have to trigger here but something that the markets had gotten all worried about and had priced a bunch of Fed rate cut and I think the Fed was probably somewhat worried about it as well.

So, what this has done? Goodbye to the jumbo cut you know. Two weeks ago we had the Fed cutting multiple 50 basis points, and at the next November meeting, the market has now priced that out. I think you could argue that probably doesn't even need to cut rates at this point although it has signaledl to the market that there are two more 25 point rate cuts to come in the next two meetings in November in December.

Also, the payroll I think next month is gonna be really noisy. We have some large OEM strikes going on it's and in the country we also have. I think two very large hurricanes that are hitting East Coast, which may excuse some of the payroll the most important take away. I have here is that the market was pricing in just rent will talk to you a couple weeks ago Fed rate cut was pricing a terminal rate of 2 3/4% that is now up to 3 1/4 so 3.25% I think that's a little bit more reasonable think valuation and treasuries were looking pretty full Potentially pricing in a recession and we just weren't seeing that in other ass classes like credit equities they were showing you know I can't think of much much stronger, economic environment.

You look at equities close to the highs you look at credit you know we were talking a couple weeks ago saying I think it fix income. It was gonna be much harder to see total returns from lower Bonos unless you had much softer economic data that's why we preferred Hanging out and taking coupon and carry and some of the credit markets and since then we seen credit spreads now read it back to the tightest levels that we've seen in the last three years.

High Yield spread it 289 or well inside of 300 today so I think at this point it's probably a better entry point to look at treasuries again you got to your notes and your notes around 4% You've also got the economic data to pick up again if I look at something like the city economic index so we've priced a little bit more value moving forward.

We got a couple more data points before the next FOMC meeting. We got CPI inflation front PCE one more job report and of course elections and we had the FOMC meeting just two days after the elections so what will we know by then? Stay tuned, there's a lot going on the market. We look forward to talking to you.

About

Parametric Portfolio Associates® LLC ("Parametric"), headquartered in Seattle, is registered as an investment advisor with the US Securities and Exchange Commission under the Investment Advisers Act of 1940. Parametric is a leading global asset management firm, providing investment strategies and customized exposure management directly to institutional investors and indirectly to individual investors through financial intermediaries. Parametric offers a variety of rules-based investment strategies, including alpha-seeking equity, fixed income, alternative, and options strategies. Parametric also offers implementation services, including customized equity, traditional overlay, and centralized portfolio management. Parametric is part of Morgan Stanley Investment Management, the asset management division of Morgan Stanley, and offers these capabilities through offices located in Seattle, Boston, Minneapolis, New York, and Westport, Connecticut.

Disclosures

This material may not be reproduced, in whole or in part, without the written consent of Parametric. Parametric and its affiliates are not responsible for its use by other parties.

This information is intended solely to report on investment strategies and opportunities identified by Parametric. Opinions and estimates offered constitute our judgment and are subject to change without notice, as are statements of financial market trends, which are based on current market conditions. We believe the information provided here is reliable but do not warrant its accuracy or completeness. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. Past performance is not indicative of future results. The views and strategies described may not be suitable for all investors. Investing entails risks, and there can be no assurance that Parametric will achieve profits or avoid incurring losses. Parametric and Morgan Stanley do not provide legal, tax, or accounting advice or services. Clients should consult with their own tax or legal advisor prior to entering into any transaction or strategy described herein.

Charts, graphs, and other visual presentations and text information were derived from internal, proprietary, or service vendor technology sources or may have been extracted from other firm databases. As a result, the tabulation of certain reports may not precisely match other published data. Data may have originated from various sources, including, but not limited to, Bloomberg, MSCI/Barra, FactSet, or other systems and programs. Parametric makes no representation or endorsement concerning the accuracy or propriety of information received from any third party.

The views expressed in this report are those of the authors and are current only through the date stated at the top of this page. These views are subject to change at any time based on market or other conditions, and Parametric disclaims any responsibility to update such views. These views may not be relied on as investment advice and, because investment decisions are based on many factors, may not be relied on as an indication of trading intent on behalf of any Parametric strategy. This commentary may contain statements that are not historical facts, referred to as "forward-looking statements." The strategy's actual future results may differ significantly from those stated in any forward-looking statement, depending on factors such as changes in securities or financial markets or general economic conditions.

The index data referenced herein is the property of ICE Data Indices, LLC ("ICE"), its affiliates, and its third-party suppliers. ICE, its affiliates, and its third-party suppliers accept no liability in connection with its use.

An imbalance in supply and demand in the income market may result in valuation uncertainties and greater volatility, less liquidity, widening credit spreads, and a lack of price transparency in the market. As interest rates rise, the value of certain income investments is likely to decline. Investments in income securities may be affected by changes in the creditworthiness of the issuer and are subject to the risk of nonpayment of principal and interest. The value of income securities also may decline because of real or perceived concerns about the issuer's ability to make principal and interest payments. While certain US government–sponsored agencies may be chartered or sponsored by acts of Congress, their securities are neither issued nor guaranteed by the US Treasury. Mortgage- and asset-backed securities are subject to credit, interest rate, prepayment, and extension risk. Derivative instruments can be used to take both long and short positions, be highly volatile, result in economic leverage (which can magnify losses), and involve risks in addition to the risks of the underlying instrument on which the derivative is based, such as counterparty, correlation, and liquidity risk. Diversification does not guarantee profit or eliminate the risk of loss.

Parametric is headquartered at 800 Fifth Avenue, Suite 2800, Seattle, WA 98104. For more information regarding Parametric and its investment strategies, or to request a copy of Parametric's Form ADV or a list of composites, contact us at 206 694 5500 or visit www.parametricportfolio.com.

NOT FDIC INSURED. OFFER NOT A BANK GUARANTEE. MAY LOSE VALUE.
NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY. NOT A DEPOSIT.