

From: "Paul V. Morris" [REDACTED]

To: Jeffrey Epstein <jeevacation@gmail.com>

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 CIO Outlook

Fixed Income 2017

What a difference a year makes.

Lower oil prices and a stronger dollar had significant effects on the U.S. economy and fixed income markets last year—lower oil prices reduced overall business capital spending, weakened earnings, and caused a severe credit deterioration for speculative-grade issuers, leading to a massive sell-off in high yield corporates in mid-February; a stronger dollar, meanwhile, dampened exports. Combined, these two factors weighed on inflation and growth expectations, pushing the 10-year Treasury yield down to a low of 1.36% in July.

Thanks to rebounding oil prices, moderating dollar strength, and central banks' changing mindset about the benefits of long-term negative interest rates, however, the 10-year Treasury was yielding 2.44%—a full 108 basis points higher than its low for the year—as of December 30 and is now (as of January 13) yielding 2.40%.

We believe last year marked the re-start of a cyclical upswing that is likely to last at least through the 2018 mid-term elections and, despite our expectations of rising rates, we continue to see an allocation to fixed income as unquestionably essential to a diversified investment strategy.

Read more in the current Monthly Letter, [Fixed Income 2017](#).

We also encourage you to visit ml.com/insights for our latest thinking on long-term investment themes.

Sincerely,

*The Morris Group
Private Wealth Manager*

The Morris Group
Private Wealth Manager

**One Bryant Park, 28th Floor
New York, NY 10036
(212) 680-5919
paul.v.morris@ml.com**



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