

# Election Update: Structured Credit Remains Well Positioned

Last night's election results came as a complete surprise to the global financial markets, and as David Brooks of *The New York Times* said last night on PBS, "This is the biggest political upset in American history." As one might expect, the initial reaction was swift; most risk assets fell sharply in overnight sessions with S&P futures down nearly 5% at one point. The structured credit markets, which mostly affect our funds, initially opened weaker on dealer offer sheets but have recovered remarkably well as immediate demand from buyers looking for cheaper bonds pushed prices higher. The technicals supporting credit markets across the board remain incredibly robust. It's very early, but the Trump agenda is expected to bring infrastructure spending, expanded fiscal policy and protectionism. It's difficult to determine what the longer-term implications of his policies will be, but the main takeaway from the initial market reaction is that we believe Trump's policies will be inflationary, and yields on the long end of the Treasury curve are rising. The 30-year Treasury yield is up 20 basis points today, and the difference between the 30-year bond yield and the 2-year note yield rose 18 basis points. The Federal Open Market Committee (FOMC) is expected to remain cautiously data dependent with inflationary pressures building. Market participants expect lower real rates in the near term even though the FOMC is still expected to tighten in December.

The structured credit exposure our funds target, particularly the legacy non-agency mortgage-backed securities, are very well positioned to take advantage of potential inflationary pressure, tighter monetary policy and rising LIBOR rates. For example, the Angel Oak Multi-Strategy Income Fund is overweight floating rate assets at a discount with inflation protection. Approximately 60% of the Fund's holdings are comprised of non-agency residential mortgage-backed securities issued prior to 2008, which we believe could be an excellent way to benefit from inflationary pressures given the underlying collateral is secured by homes in the U.S. Moreover, many of these assets are LIBOR-based floating rate bonds that still trade at significant discounts to par. Reflation has historically been very beneficial to housing and real estate assets and a harbinger for increased prepayments in the post-crisis period. Finally, potentially less regulation from a Trump administration could improve residential credit expansion, which should also be very beneficial to prepayments and total return.

In our view, the structured credit exposure was favorably positioned prior to last night's surprise election results, but the potential inflationary implications market participants now expect should bode well for continued solid performance.

## ABOUT ANGEL OAK CAPITAL ADVISORS

Angel Oak Capital Advisors is an investment management firm focused on providing compelling fixed-income investment solutions for its clients. Backed by a value-driven approach, Angel Oak Capital seeks to deliver attractive risk-adjusted returns through a combination of stable current income and price appreciation. Our experienced investment team seeks the best opportunities in fixed-income with a specialization in mortgage-backed securities and other areas of structured credit.

As of 9/30/16, Angel Oak Capital has approximately \$5.5 billion in assets under management through a combination of mutual funds, private funds, and separately managed accounts.

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**Must be preceded or accompanied by a prospectus. To obtain an electronic copy of the prospectus, please visit [www.angeloakcapital.com](http://www.angeloakcapital.com).**

### Definitions

**Basis Points (bps):** One hundredth of one percent and is used to denote the percentage change in a financial instrument.

**S&P:** An American stock market index based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ.

**Past performance does not guarantee future results.**



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