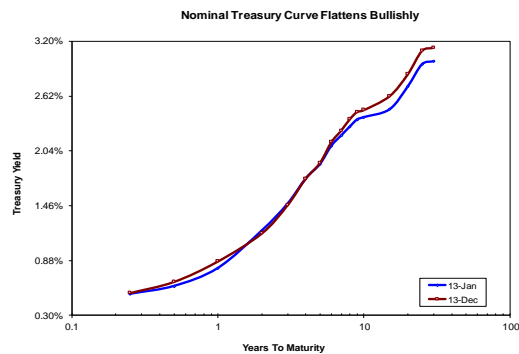


An old rule of thumb was confusion was bearish. This needs to be revisited; we have had confusion, reversals and surprises galore over the past year, and all of them have combined to keep investors frozen in place. After all, we have trained everyone to believe selling is for fools. Inertia is the order of the day and as institutional investors everywhere still have massive liabilities to meet and can meet them only in risky assets, they will stay long. The causal chain now is:

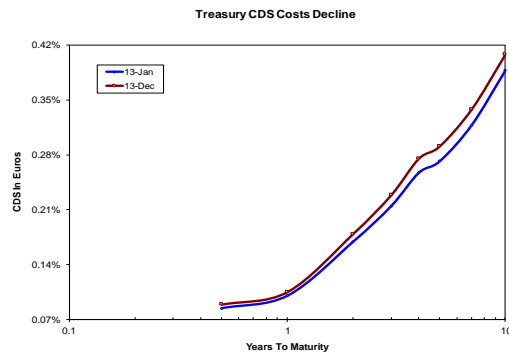
1. The market is nominally pricing in higher short-term rates in 2017, but the conviction levels are weak;
2. Inflationary expectations have stopped rising for the short-term;
3. The U.S. yield curve is re-entering its secular flattening trend;
4. Short-term borrowers have stopped terming out short-term debt into the bond market;
5. Swap spreads are pricing in higher future rates; and
6. CDS costs remain consistent with a bull market in risky assets.

### Key Market Indications

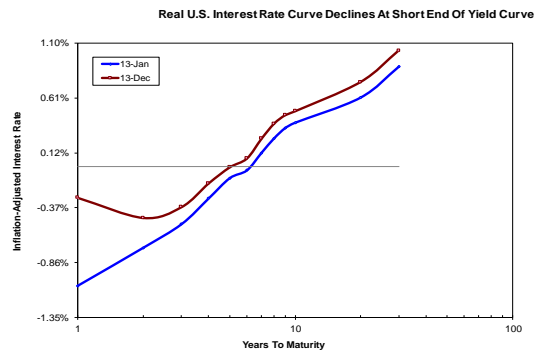
When camera-chasing bond fund managers start competing to declare where and when the 35-year bull market will end, stay long. The U.S. remains attractive, the reflation trade was overdone and the primary trend of a bullish flattening of the yield curve is starting to reappear.



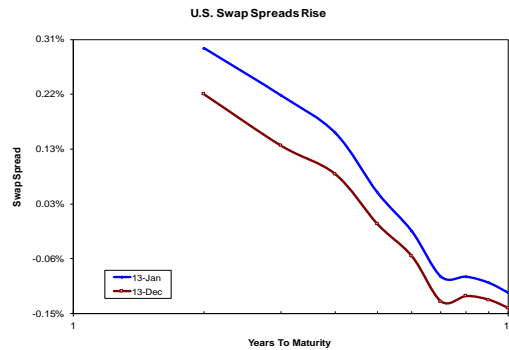
CDS costs on UST continue their small decline. This market is likely to remain quite dormant unless Republican party discipline breaks down entirely and the federal deficit expands.



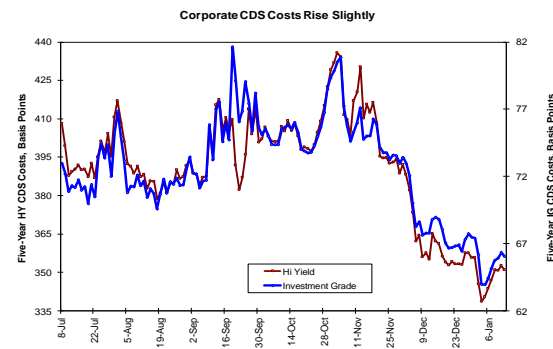
The pseudo-real yield curve declined again at the short end of the yield curve over the past month. This has helped support gold. The rise in long-term implied real rates has ended, removing one impediment to risky financial assets.



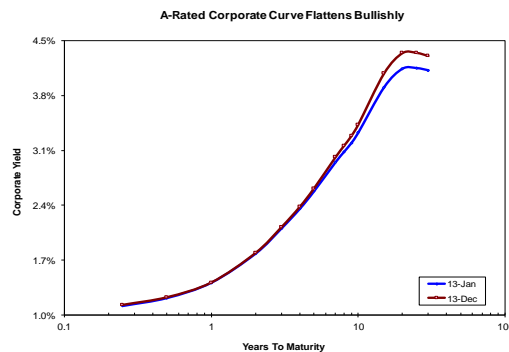
Swap spreads, which rise when floating-rate borrowers want to fix their payments, continue to rise across tenors as the swap market is pricing in higher sovereign rates. The swap market was slow to price in higher rates in November and appears to be behind the curve once again.



CDS costs rose slightly, but this is a small retracement well within the confines of a bull market. With the pace of future rate hikes in question and with the economic data reflecting strength, the argument for higher CDS costs is absent.



The A-rated corporate yield curve is continuing its slow bullish flattening. The move will be constrained by the UST yield curve. However, even a modest bullish flattening is supportive for equities.



## Market Structure

The main Bloomberg index and both Grains and Precious Metals are in structural uptrends amongst physical markets. The dollar index moved into a downtrend while both the EM and EAFE indices remain in uptrends.

	N-Day Speed	Market Structure	Trend Oscillator	HLC Volatility	Daily Trend Rate Jan. 16 - 20
BBlg	20	Trending	0.214	8.8%	0.09%
BBlg Grain	29	Trending	0.160	12.6%	0.11%
BBlg Ind. Metl	26	Trending	0.208	17.7%	
BBlg Pre. Metl	22	Trending	0.223	13.0%	0.22%
BBlg Softs	4	Sideways	0.001	11.9%	
BBlg Nat. Gas	18	Transitional	0.019	38.3%	
BBlg Petroleum	16	Transitional	-0.053	21.4%	
BBlg Livestock	14	Transitional	0.162	14.4%	
Dollar Index	22	Trending	-0.126	9.7%	-0.13%
S&P 500 Index	5	Sideways	0.020	6.6%	
EAFE Index	29	Trending	0.255	10.2%	0.09%
EM Index	27	Trending	0.394	8.0%	0.07%
Ten-year UST (price)	4	Sideways	-0.024	8.4%	

## Performance Measures

The Petroleum markets are continuing to digest the reality of excess supply, while Natural Gas is proving weather forecasters are at least as reliable as economists. Industrial Metals turned sharply higher, while Grains, Livestock and Softs all managed to advance. The decline in short-term implied real rates supported Precious Metals.

	Five-Days	One Month	Six Months	One Year
<b>Bloomberg Index</b>	1.36%	1.66%	2.33%	20.90%
<b>Grains Sub-Index</b>	2.20%	1.34%	-4.04%	-3.89%
Corn	0.15%	0.67%	-3.59%	-9.22%
Soybeans	5.19%	-0.01%	-2.65%	17.67%
Wheat	0.66%	4.14%	-8.27%	-21.32%
<b>Energy Sub-Index</b>	-1.24%	-0.83%	7.69%	35.03%
Petroleum Sub-Index	-2.82%	-0.74%	8.40%	43.61%
WTI	-3.12%	-1.30%	4.13%	30.79%
Brent	-3.06%	-0.81%	7.49%	59.76%
ULSD	-3.16%	-2.23%	9.19%	54.62%
Gasoline	-1.26%	2.35%	19.77%	28.30%
Natural Gas	3.29%	-1.13%	6.16%	13.00%
<b>Precious Metals Sub-Index</b>	1.82%	4.70%	-12.67%	11.50%
Gold	1.94%	5.20%	-10.47%	8.80%
Silver	1.50%	3.43%	-17.71%	18.76%
<b>Industrial Metals Sub-Index</b>	5.30%	2.84%	14.79%	37.15%
Copper	5.67%	4.94%	19.52%	36.52%
Aluminum	5.58%	5.29%	7.61%	19.92%
Nickel	1.98%	-6.55%	0.89%	22.53%
Zinc	6.55%	2.14%	25.51%	86.29%
<b>Softs Sub-Index</b>	0.30%	6.78%	-0.09%	26.55%
Coffee	4.53%	4.85%	-3.32%	18.52%
Sugar	-1.10%	12.67%	3.30%	31.99%
Cotton	-2.31%	1.77%	-3.37%	16.54%
<b>Livestock Sub-Index</b>	2.98%	2.26%	1.87%	-1.78%
Cattle	3.42%	2.98%	6.15%	1.57%
Hogs	2.35%	1.23%	-4.23%	-7.13%

The USD retreated on the late-arriving realization the Federal Reserve will not be able to diverge too far from other central banks without causing undue financial stress. The exceptions were the GBP, which is grappling with the possibility of a hard Brexit, whatever that really means, and special political cases such as the MXN.

	Five-Days	One Month	Six Months	One Year
Euro	1.05%	0.16%	-4.03%	-2.15%
Chinese yuan	0.34%	0.03%	-3.07%	-4.71%
Japanese yen	2.21%	0.61%	-8.73%	2.79%
British pound	-0.85%	-3.76%	-7.34%	-15.44%
Swiss franc	0.95%	0.37%	-2.29%	-0.23%
Canadian dollar	0.94%	0.13%	-1.04%	9.35%
Australian dollar	2.75%	0.03%	-1.39%	7.86%
Swedish krona	1.64%	2.85%	-4.65%	-4.30%
Norwegian krone	0.44%	-0.88%	-0.88%	3.75%
New Zealand dollar	2.46%	-1.01%	-1.99%	9.47%
Indian rupee	-0.28%	-0.90%	-1.62%	-1.91%
Brazilian real	0.16%	3.63%	1.45%	24.84%
Mexican peso	-1.19%	-5.58%	-14.48%	-16.43%
Chilean peso	1.36%	-1.24%	-0.41%	10.20%
Colombian peso	-0.81%	0.82%	-0.38%	10.44%
Bloomberg-JP Morgan Asian dollar index (spot)	0.65%	-0.20%	-2.72%	-1.27%

I noted last week f the USD's gains are muted, the EAFE and EM should outperform the U.S. over the course of the year. With fifty weeks left, some sobriety is in order, but that reality remains.

	Five-Days	One Month	Six Months	One Year
MSCI WorldFree	0.30%	2.04%	6.26%	20.72%
North America	0.00%	0.44%	7.00%	23.99%
Latin America	1.74%	4.32%	6.05%	49.60%
Emerging Market Free	1.69%	2.50%	5.80%	26.23%
EAFE	0.82%	1.82%	6.04%	10.90%
Pacific	1.17%	3.47%	7.70%	18.20%
Eurozone	0.63%	4.03%	8.68%	14.38%

CTAs managed some small gains, but performance over the past year has been dreadful. The same can be said for the macro-oriented hedge funds.

	Five-Days	One Month	Six Months	One Year
Newedge CTA	0.47%	-0.15%	-8.74%	-9.16%
Newedge Trend	0.20%	-0.03%	-7.25%	-6.50%
Newedge Short-Term	-1.02%	-1.43%	-7.48%	-4.40%
HFR Global Hedge Fund	0.15%	0.58%	2.89%	4.83%
HFR Macro/CTA	-0.31%	-0.52%	-3.51%	-4.51%
HFR Macro	-0.30%	-1.10%	-5.87%	-4.96%
Systematic Diversified CTA				