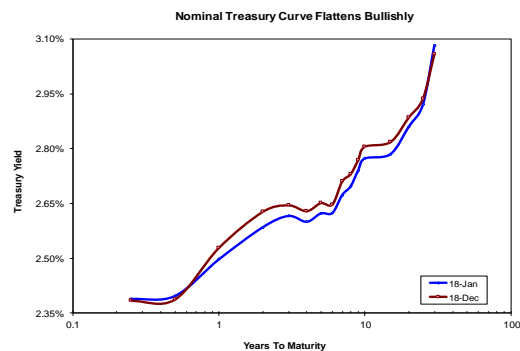


If the Federal Reserve's pullback in the face of financial market turmoil led to a resumption of risk-seeking behavior then we have to ask when this trade will reverse; after all, the staff at the Federal Reserve is likely to push their case for higher short-term interest rates. In addition, if the U.S. and China are behaving better in the face of December's selloff, will their negotiating stance reverse in the face of the risk-on rally? Markets seem to be climbing a wall of wishful thinking. The causal chain now is:

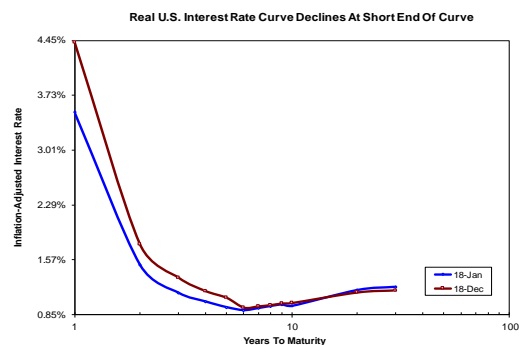
1. The market has priced out a 2019 rate hike;
2. The yield curve is flattening once again;
3. Inflationary expectations have hit resistance at their December breakdown point;
4. Short-term borrowers are accepting rollover risk rather than term-out borrowing in the bond market;
5. Swap spreads are rising within their inverted structure; and
6. CDS costs are declining from their December highs.

Key Market Indications

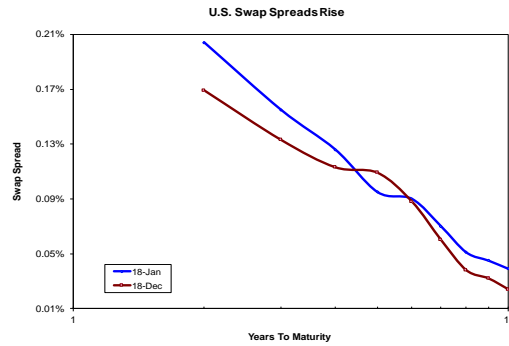
The haven bid in UST is disappearing steadily, and a move back over 2.80% on the ten-year places yields back in an uptrend. The yield curve has not steepened, nor have inflationary expectations increased; what we have simply is a reduction in risk-aversion.



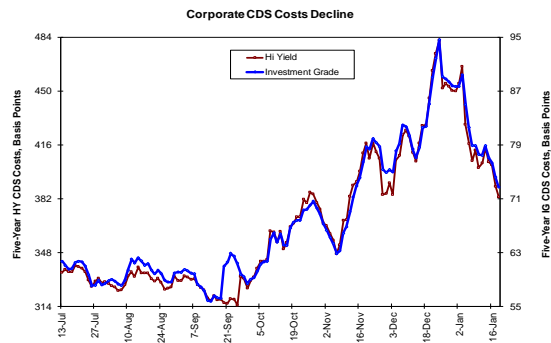
The pseudo-real yield curve remains elevated at the shortest maturities, but is starting to decline. Implied real rates have remained steady at the long end of the yield curve.



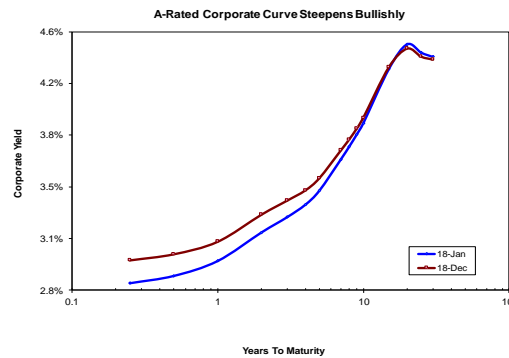
Swap spreads, which rise when floating-rate borrowers want to fix their payments, rose at all tenors except for the five-year. This reflects increased bearishness in the UST market.



CDS costs have relinked to the equity market as correlation trades fade. We remain unlikely to revisit the lows from early autumn anytime soon.



The A-rated corporate yield curve continues to steepen bullishly as some immediate threats to corporate credit quality, such as higher short-term rates and plunging crude oil prices, have ceased for now.



Market Structure

Only Livestock and Grains are not in structural uptrends amongst physical commodity markets. All of the equity indices entered structural uptrends while the dollar index remains in a downtrend.

	N-Day Speed	Market Structure	Trend Oscillator	HLC Volatility	Daily Trend Rate Jan. 21 - 25
BBerg	28	Trending	0.262	9.3%	0.16%
BBerg Grain	27	Trending	0.057	10.3%	
BBerg Ind. Metl	29	Trending	0.170	11.6%	0.36%
BBerg Pre. Metl	8	Sideways	-0.104	7.1%	
BBerg Softs	29	Trending	0.154	15.9%	0.17%
BBerg Nat. Gas	26	Trending	0.135	23.9%	0.40%
BBerg Petroleum	21	Trending	0.206	37.2%	0.66%
BBerg Livestock	19	Transitional	-0.030	8.3%	
Dollar Index	29	Trending	-0.021	5.8%	-0.13%
S&P 500 Index	29	Trending	0.195	22.0%	0.32%
EAFE Index	29	Trending	0.259	12.5%	0.20%
EM Index	29	Trending	0.389	10.7%	0.41%
Ten-year UST (price)	8	Sideways	-0.101	4.4%	

Performance Measures

All of the energy markets gained on credulity over production cuts and the expectation of cold weather in January in the Northern Hemisphere. Economically sensitive Industrial Metals advanced on the Chinese stimulus story. Both moves appear to be trading by hope in the face of past experience and are likely fragile.

	Commodity Total Returns			
	Five-Days	One Month	Six Months	One Year
Bloomberg Index	2.20%	3.61%	-1.65%	-6.21%
Grains Sub-Index	0.60%	1.40%	0.09%	-3.71%
Corn	0.97%	1.05%	1.60%	-3.31%
Soybeans	0.76%	2.31%	4.05%	-10.97%
Wheat	-0.29%	0.92%	-4.23%	7.64%
Energy Sub-Index	5.06%	5.90%	-5.54%	-2.60%
Petroleum Sub-Index	3.09%	14.84%	-16.08%	-9.36%
WTI	4.15%	17.98%	-19.01%	-10.22%
Brent	3.03%	15.32%	-13.59%	-4.17%
ULSD	2.01%	11.83%	-8.13%	-4.12%
Gasoline	3.41%	11.31%	-22.69%	-22.04%
Natural Gas	10.03%	-8.43%	24.25%	12.16%
Precious Metals Sub-Index	-0.77%	2.71%	2.79%	-5.83%
Gold	-0.51%	2.12%	4.04%	-4.43%
Silver	-1.60%	4.94%	-1.33%	-10.40%
Industrial Metals Sub-Index	2.63%	2.37%	-4.26%	-14.50%
Copper	2.19%	1.88%	-1.57%	-15.70%
Aluminum	2.17%	-1.55%	-7.25%	-13.51%
Nickel	3.18%	8.72%	-12.70%	-7.18%
Zinc	3.77%	3.59%	4.65%	-19.79%
Softs Sub-Index	1.69%	3.49%	-2.37%	-12.47%
Coffee	1.11%	5.46%	-9.71%	-21.13%
Sugar	2.00%	5.79%	10.82%	-8.36%
Cotton	1.98%	1.16%	-16.04%	-10.55%
Livestock Sub-Index	0.06%	2.66%	9.47%	0.25%
Cattle	0.87%	3.08%	8.25%	5.28%
Hogs	-1.65%	1.95%	13.15%	-9.76%

The MXN, CLP and COP all gained on the week while the BRL pulled back. This stands in contrast to losses for the BRL, INR and all of the major currencies except for the GBP and CAD. Currencies have been surprisingly non-volatile over the past two months.

	Currency Returns			
	Five-Days	One Month	Six Months	One Year
Euro	-0.92%	0.02%	-2.37%	-7.15%
Chinese yuan	-0.22%	1.73%	-0.87%	-5.28%
Japanese yen	-1.18%	2.50%	2.81%	1.21%
British pound	0.22%	1.84%	-1.51%	-7.36%
Swiss franc	-1.20%	-0.31%	0.36%	-3.67%
Canadian dollar	0.05%	1.55%	-0.68%	-6.35%
Australian dollar	-0.65%	-0.18%	-3.11%	-10.41%
Swedish krona	-1.06%	0.47%	-1.80%	-11.18%
Norwegian krone	-0.30%	1.99%	-4.57%	-8.35%
New Zealand dollar	-1.30%	-1.50%	-0.75%	-7.64%
Indian rupee	-0.97%	-1.07%	-3.60%	-10.29%
Brazilian real	-1.09%	4.12%	2.53%	-14.46%
Mexican peso	0.24%	5.14%	-1.06%	-2.58%
Chilean peso	0.78%	2.91%	-2.39%	-9.55%
Colombian peso	0.90%	2.60%	-8.36%	-9.06%
Bloomberg-JP Morgan Asian dollar index (spot)	-0.30%	1.18%	-0.09%	-4.78%

Global equities continued their strong rebound from the December selloff. The markets have been quick to accept a reduction in central bank hawkishness and the tease of a resolution of the U.S.-China trade dispute. In addition, we cannot underestimate the effect of fund inflows at the start of the year.

	Equity Total Returns			
	Five-Days	One Month	Six Months	One Year
MSCI World Free	2.25%	9.19%	-5.48%	-7.08%
North America	2.88%	10.98%	-4.07%	-3.43%
Latin America	1.82%	14.28%	12.05%	-3.31%
Emerging Market Free	1.69%	6.65%	-3.82%	-15.04%
EAFE	1.08%	5.95%	-8.06%	-13.32%
Pacific	0.80%	6.66%	-6.18%	-11.93%
Eurozone	1.24%	4.48%	-11.62%	-17.23%

Returns for both CTAs and hedge funds were mixed on the week, which indicates both classes of trader have been slow to embrace the risk-on trade in the face of mixed news. Neither group has acquitted itself well over the past six months.

	CTA/Hedge Fund Returns			
	Five-Days	One Month	Six Months	One Year
SocGen CTA	0.35%	-1.44%	-7.35%	-15.39%
SocGen Trend	0.15%	-0.79%	-4.09%	-11.34%
SocGen Short-Term	-0.54%	-0.63%	-2.38%	-5.19%
HFR Global Hedge Fund	0.20%	1.48%	-4.85%	-6.92%
HFR Macro/CTA	0.28%	-1.10%	-4.66%	-8.39%
HFR Macro:	-0.30%	-1.63%	-5.83%	-12.13%
Sytematic Diversified CTA				