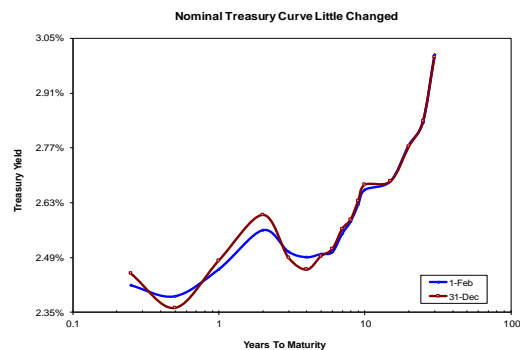


To say the Federal Reserve has been chastised would be an understatement. The case for tighter credit conditions could be made in light of employment and output data if the real economy were autarkic, but this is 2019 and not 1959. The global economy and the increasing importance of financial market conditions for the real economy forced the Federal Reserve to sheath its sword, and then some. The causal chain now is:

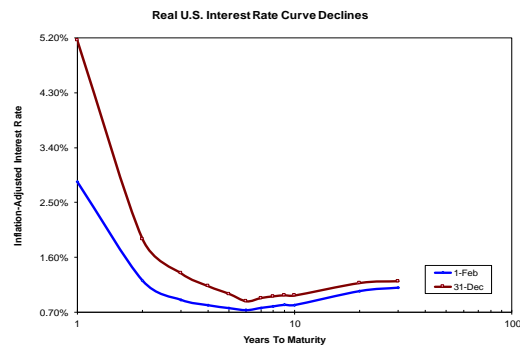
1. The market has priced out a 2019 rate hike;
2. The yield curve is steepening bullishy;
3. Inflationary expectations are increasing now;
4. Short-term borrowers are accepting rollover risk rather than term-out borrowing in the bond market;
5. Swap spreads are flattening bearishly; and
6. CDS costs are declining from their December highs.

Key Market Indications

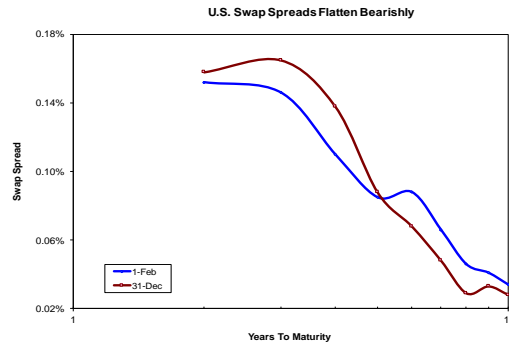
The bullish steepening of the yield curve and rising inflation expectations are threatening the post-November bullish trend in UST. However, a high level of residual risk aversion will stem any increase in long-term rates throughout the first quarter.



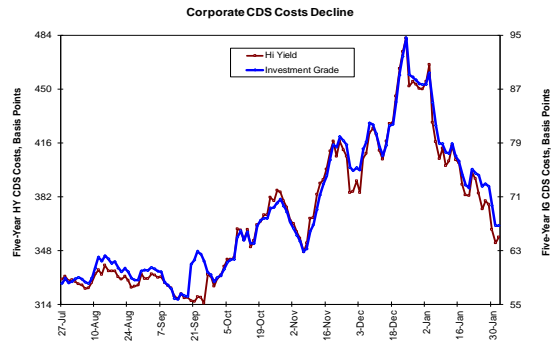
The pseudo-real yield curve is declining across the maturity spectrum, especially at the short end of the yield curve, as inflation expectations rise.



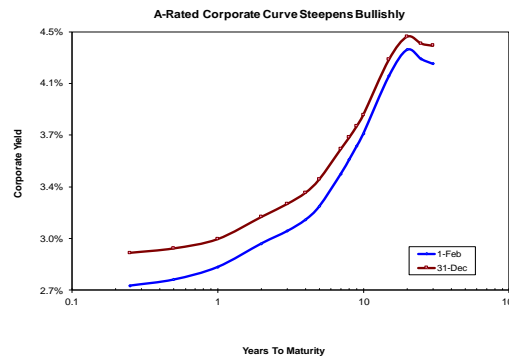
Swap spreads, which rise when floating-rate borrowers want to fix their payments, continue to rise at the long end of the yield curve and decline at the short end of the yield curve. However, these changes are minor and do not reflect a large shift in sentiment.



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, plunging crude oil prices and declining equities, have ceased for now.



Market Structure

Natural Gas joined Livestock in a structural downtrend amongst physical commodity markets, which is ironic given the savagery of this week's polar vortex. The remainder of the complex retains a bear-market rally pose. The S&P 500 rejoined the EAFE and EM indices in a structural uptrend.

	N-Day Speed	Market Structure	Trend Oscillator	HLC Volatility	Daily Trend Rate Feb. 4 - 8
BBERG	28	Trending	0.263	9.6%	0.16%
BBERG Grain	29	Trending	0.076	10.6%	0.29%
BBERG Ind. Metl	29	Trending	0.416	11.6%	0.36%
BBERG Pre. Metl	16	Transitional	0.234	7.1%	
BBERG Softs	25	Trending	0.022	13.8%	0.17%
BBERG Nat. Gas	29	Trending	-0.081	23.4%	-0.15%
BBERG Petroleum	9	Sideways	0.089	26.1%	
BBERG Livestock	29	Trending	-0.233	8.5%	-0.15%
Dollar Index	14	Transitional	-0.079	4.7%	
S&P 500 Index	26	Trending	0.245	17.0%	0.27%
EAFE Index	28	Trending	0.300	11.5%	0.20%
EM Index	29	Trending	0.526	10.2%	0.41%
Ten-year UST (price)	18	Transitional	0.088	4.1%	

Performance Measures

While Petroleum gained on sanctions against Venezuela, Natural Gas declined on the realization this week's polar vortex represented a singular peak in demand. Rising inflation expectations and declining implied short-term interest rates pushed Precious Metals higher, while another round of Chinese stimulus pushed Industrial Metals higher.

Commodity Total Returns

	Five-Days	One Month	Six Months	One Year
Bloomberg Index	-0.08%	3.55%	-3.54%	-7.26%
Grains Sub-Index	-0.29%	-0.07%	-5.29%	-6.24%
Corn	-0.48%	-1.05%	-3.27%	-6.55%
Soybeans	-0.76%	-0.22%	-0.14%	-10.98%
Wheat	0.86%	1.59%	-10.03%	3.18%
Energy Sub-Index	-1.40%	5.86%	-10.62%	-6.43%
Petroleum Sub-Index	2.19%	10.56%	-16.02%	-9.92%
WTI	2.97%	14.67%	-17.45%	-11.16%
Brent	1.78%	9.53%	-13.79%	-4.50%
ULSD	1.43%	8.82%	-8.67%	-3.85%
Gasoline	2.34%	5.71%	-25.34%	-23.84%
Natural Gas	-10.95%	-5.70%	0.31%	-2.12%
Precious Metals Sub-Index	1.44%	2.17%	6.95%	-2.70%
Gold	1.42%	2.49%	8.24%	-1.88%
Silver	1.52%	1.11%	2.67%	-5.45%
Industrial Metals Sub-Index	1.83%	6.93%	-1.30%	-12.55%
Copper	1.66%	4.94%	0.13%	-13.99%
Aluminum	-2.16%	0.54%	-6.61%	-12.74%
Nickel	5.86%	14.00%	-6.57%	-5.89%
Zinc	-4.01%	14.70%	10.28%	-15.48%
Softs Sub-Index	-0.58%	3.39%	-2.18%	-14.09%
Coffee	-2.86%	2.26%	-8.37%	-21.48%
Sugar	1.33%	5.81%	9.84%	-13.82%
Cotton	-0.61%	1.74%	-17.30%	-3.76%
Livestock Sub-Index	-1.25%	-0.92%	4.67%	-4.23%
Cattle	-0.41%	2.84%	5.66%	1.59%
Hogs	-3.17%	-8.75%	3.68%	-15.93%

The USD's decline was not universal as it gained against the GBP, CHF, SEK, INR and MXN, but the intermediate course is set until the Federal Reserve returns to its 2018 credit-tightening stance.

Currency Returns

	Five-Days	One Month	Six Months	One Year
Euro	0.44%	-0.08%	-1.75%	-8.43%
Chinese yuan	0.04%	1.97%	1.15%	-6.61%
Japanese yen	0.05%	0.22%	2.04%	-0.09%
British pound	-0.89%	2.66%	-0.37%	-8.31%
Swiss franc	-0.17%	-1.41%	-0.35%	-6.94%
Canadian dollar	0.89%	4.04%	-0.75%	-6.37%
Australian dollar	0.99%	2.79%	-2.08%	-9.81%
Swedish krona	-0.02%	-1.98%	-2.69%	-13.37%
Norwegian krone	0.89%	2.44%	-3.07%	-9.43%
New Zealand dollar	0.89%	2.72%	1.61%	-6.72%
Indian rupee	-0.11%	-2.56%	-3.96%	-10.15%
Brazilian real	2.88%	5.95%	2.56%	-13.30%
Mexican peso	-0.62%	2.86%	-2.71%	-3.98%
Chilean peso	2.32%	6.43%	-1.63%	-8.47%
Colombian peso	1.98%	5.16%	-6.35%	-9.70%
Bloomberg-JP Morgan Asian dollar index (spot)	0.04%	0.97%	0.57%	-5.13%

The decline in the USD and the Federal Reserve's dovishness continue to push EM returns higher, with Latin America leading the way once again.

Equity Total Returns

	Five-Days	One Month	Six Months	One Year
MSCI World Free	1.43%	6.71%	-4.83%	-4.18%
North America	1.69%	7.37%	-3.87%	-0.20%
Latin America	2.51%	15.08%	10.82%	-5.52%
Emerging Market Free	1.74%	8.88%	-1.20%	-12.24%
EAFE	0.95%	5.49%	-6.63%	-10.93%
Pacific	0.30%	5.89%	-5.17%	-10.42%
Eurozone	0.71%	5.14%	-9.39%	-14.26%

CTAs lost on the week, while hedge funds gained as is their wont during periods of advancing equities. Once again, professional traders are finding it difficult to justify their fees.

CTA/Hedge Fund Returns

	Five-Days	One Month	Six Months	One Year
SocGen CTA	-0.65%	-3.25%	-5.49%	-16.01%
SocGen Trend	-0.38%	-1.99%	-2.49%	-11.18%
SocGen Short-Term	-0.19%	-1.71%	-1.12%	-6.96%
HFR Global Hedge Fund	0.39%	2.13%	-3.78%	-7.01%
HFR Macro/CTA	0.96%	-1.91%	-2.26%	-8.57%
HFR Macro:	1.10%	-2.59%	-3.27%	-11.72%
Systematic Diversified CTA				