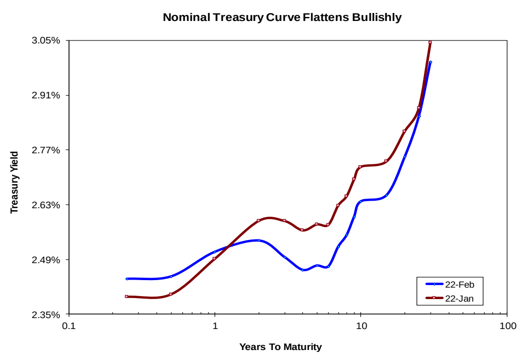
The Macro Environment For
Financial Markets

If this is Federal Reserve "independence," I would hate to see what direct Presidential control of monetary policy would look like. A little humility by the academic economist community would be welcome; we can observe they have no idea what the causes of inflation/deflation are or how to arrest them once they begin. Ditto for the Phillips Curve. On the Presidential side, someone has managed to convince the U.S. trade wars are bad and are not particularly easy to win. The causal chain now is:

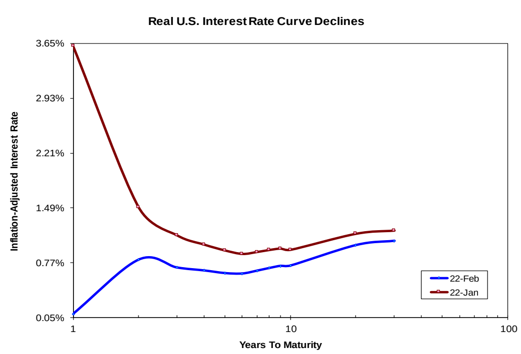
1. The market has priced out a 2019 rate hike;
2. The yield curve is holding its weak positive slope;
3. Inflationary expectations are rising;
4. Short-term borrowers are accepting rollover risk rather than term-out borrowing in the bond market;
5. Swap spreads are declining; and
6. CDS costs have hit resistance in their rally.

Key Market Indications

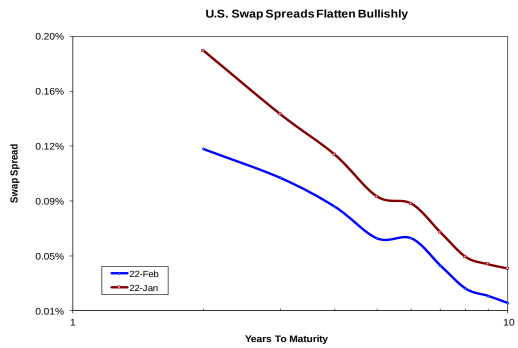
The rally in UST has stalled as inflation expectations rise and as the market has priced in a more dovish Federal Reserve fully. The ability of the yield curve to retain its bullish flattening in the face of rising risk-acceptance in certain quarters is a testament to the need of pension funds, endowments and central banks to hold large quantities of sovereign debt.



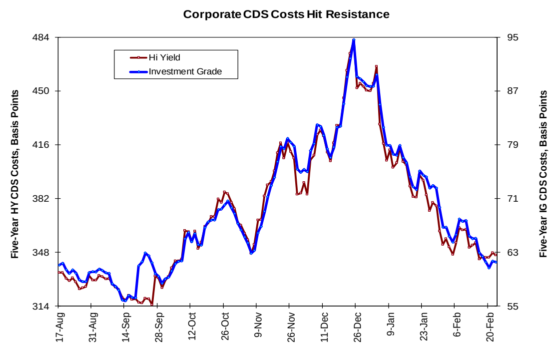
The pseudo-real yield curve is declining across the maturity spectrum, especially at the short end of the yield curve, as expectations for tighter monetary policy dissipate. Predictably, this has boosted gold.



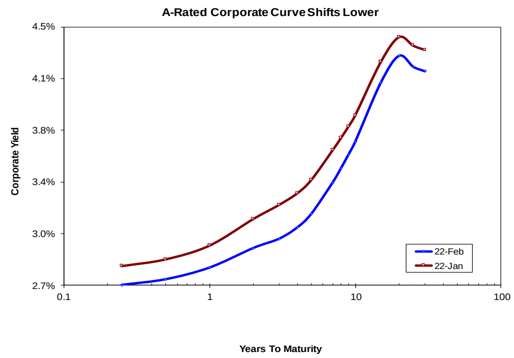
Swap spreads, which rise when floating-rate borrowers want to fix their payments, have declined slightly at the long end of the yield curve and more substantially at shorter tenors. The market has become complacent about higher credit spreads and interest rate shifts.



CDS costs have hit resistance despite the ongoing equity rally and the pricing in of a more dovish Federal Reserve. Single-name event risk, such as this week's surprise from Kraft Heinz, underscores the need to retain credit protection.



Corporate bonds continue to rally as recession risk is being priced out of the market and the Federal Reserve appears content to remain on the sidelines.



Market Structure

Grains and Softs are the only physical markets to remain in structural downtrends. All of the financial indices save for the EM index remain in structural uptrends.

	N-Day Speed	Market Structure	Trend Oscillator	HLC Volatility	Daily Trend Rate Feb. 18 - 22
BBerg	29	Trending	0.294	7.8%	0.12%
BBerg Grain	29	Trending	-0.141	11.3%	-0.12%
BBerg Ind. Metl	29	Trending	0.382	11.7%	0.36%
BBerg Pre. Metl	24	Trending	0.189	7.3%	0.24%
BBerg Softs	29	Trending	-0.034	12.7%	-0.41%
BBerg Nat. Gas	27	Trending	0.020	21.4%	0.55%
BBerg Petroleum	29	Trending	0.268	23.3%	0.96%
BBerg Livestock	29	Trending	0.056	9.1%	0.12%
Dollar Index	29	Trending	0.060	4.6%	0.12%
S&P 500 Index	29	Trending	0.340	10.4%	0.27%
EAFE Index	29	Trending	0.319	8.4%	0.20%
EM Index	11	Transitional	0.180	8.7%	
Ten-year UST (price)	25	Trending	0.088	3.7%	0.03%

Performance Measures

Industrial Metals and Energy both rallied strongly on a lowering of trade tensions. The decline in implied short-term real rates was bullish for Precious Metals. Just as has been the case for equities, what looked like a bear-market rally in early January has turned into something far more sustainable.

Commodity Total Returns

	Five-Days	One Month	Six Months	One Year
Bloomberg Index	2.76%	1.49%	-0.72%	-5.43%
Grains Sub-Index	-0.62%	-2.70%	-1.76%	-11.20%
Corn	0.45%	-0.79%	1.89%	-8.28%
Soybeans	0.71%	-1.51%	4.43%	-16.62%
Wheat	-3.62%	-5.76%	-9.58%	-4.78%
Energy Sub-Index	4.38%	2.78%	-9.06%	1.19%
Petroleum Sub-Index	4.31%	8.25%	-13.31%	-2.15%
WTI	4.39%	6.01%	-16.31%	-6.52%
Brent	4.29%	9.16%	-10.80%	4.23%
ULSD	3.34%	8.20%	-6.10%	6.37%
Gasoline	5.00%	11.55%	-19.86%	-13.98%
Natural Gas	4.60%	-11.82%	-2.63%	4.00%
Precious Metals Sub-Index	1.74%	2.19%	9.35%	-1.35%
Gold	1.49%	2.38%	10.03%	-0.52%
Silver	2.55%	1.55%	7.12%	-4.12%
Industrial Metals Sub-Index	5.42%	4.82%	2.12%	-10.02%
Copper	6.06%	7.97%	8.61%	-9.45%
Aluminum	3.45%	-0.72%	-8.76%	-8.65%
Nickel	6.52%	8.58%	-3.24%	-5.79%
Zinc	5.50%	1.97%	11.85%	-17.43%
Softs Sub-Index	3.07%	-0.65%	4.29%	-14.15%
Coffee	-1.38%	-8.99%	-9.22%	-25.62%
Sugar	7.14%	8.17%	24.21%	-7.32%
Cotton	1.87%	-3.05%	-13.02%	-9.64%
Livestock Sub-Index	-0.74%	-2.00%	6.90%	-3.46%
Cattle	1.23%	1.79%	13.21%	4.80%
Hogs	-5.48%	-10.58%	-6.21%	-20.06%

The USD has been trading without an overarching theme so far in 2019. All we can say with any certainty is dovish U.S. policies have precluded a strong rally.

Currency Returns

	Five-Days	One Month	Six Months	One Year
Euro	0.35%	-0.22%	-2.26%	-8.07%
Chinese yuan	0.89%	1.40%	1.91%	-5.38%
Japanese yen	-0.20%	-1.19%	-0.12%	-3.56%
British pound	1.27%	0.76%	1.10%	-6.47%
Swiss franc	0.48%	-0.31%	-1.73%	-6.75%
Canadian dollar	0.83%	1.67%	-1.05%	-3.27%
Australian dollar	-0.17%	0.07%	-2.98%	-9.14%
Swedish krona	-0.67%	-3.41%	-3.00%	-13.16%
Norwegian krone	0.26%	-0.13%	-3.16%	-8.82%
New Zealand dollar	-0.32%	1.41%	2.22%	-6.76%
Indian rupee	0.12%	0.43%	-1.85%	-8.57%
Brazilian real	-1.22%	1.54%	7.91%	-13.21%
Mexican peso	0.56%	0.12%	-2.18%	-2.82%
Chilean peso	1.97%	3.21%	1.84%	-8.71%
Colombian peso	1.16%	1.29%	-4.51%	-7.85%
Bloomberg-JP Morgan Asian dollar index (spot)	0.42%	0.22%	0.84%	-4.35%

The ongoing dovish stance of the Federal Reserve and the apparent lessening of trade tensions with China boosted global equities in general and the emerging market index in particular.

Equity Total Returns

	Five-Days	One Month	Six Months	One Year
MSCI World Free	1.03%	4.46%	-2.45%	-0.06%
North America	0.71%	5.09%	-1.90%	3.62%
Latin America	1.17%	3.48%	17.76%	-4.32%
Emerging Market Free	2.79%	2.67%	1.78%	-10.47%
EAFE	1.65%	3.26%	-3.51%	-6.45%
Pacific	2.17%	2.70%	-1.68%	-6.08%
Eurozone	1.54%	2.64%	-6.46%	-9.92%

CTAs managed to lose on the week despite a lack of trend reversals. Hedge funds returned to their normal pattern of gaining during equity rallies.

CTA/Hedge Fund Returns

	Five-Days	One Month	Six Months	One Year
SocGen CTA	-0.32%	2.13%	-6.03%	-7.89%
SocGen Trend	-0.35%	1.83%	-2.90%	-5.14%
SocGen Short-Term	-0.28%	-0.48%	-2.12%	-3.35%
HFR Global Hedge Fund	0.13%	0.92%	-3.21%	-5.41%
HFR Macro/CTA	0.48%	1.80%	-3.03%	-4.51%
HFR Macro: Sytematic Diversified CTA	0.49%	2.19%	-4.43%	-6.15%