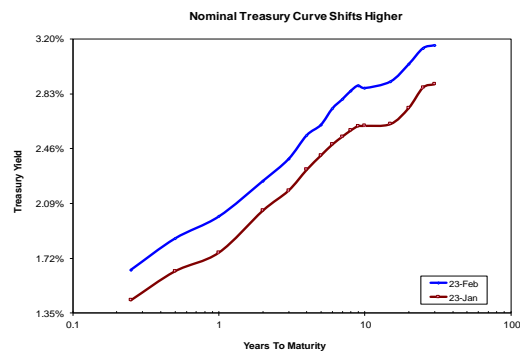


Did Jerome Powell simply state the obvious: The Federal Reserve is in no hurry to torpedo the wealth effect, raise the government's borrowing costs and render itself insolvent by (ineffectively) raising short-term interest rates to fight what remains a pedestrian rate of inflation? Yes; and if this the case, the selloff in risky assets at the start of February shows, once again, the efficient market hypothesis is honored the breach more often than not. The causal chain now is:

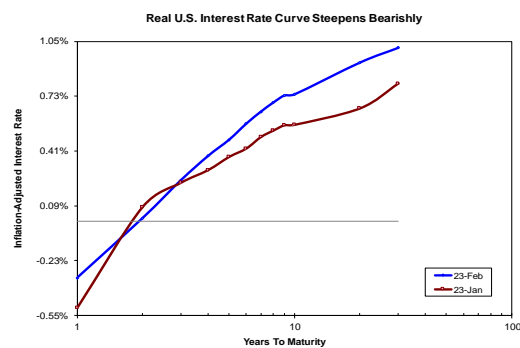
1. The market is pricing in March and June 2018 rate hikes;
2. Inflationary expectations are on pace to reach their next target of 2.26% for the ten-year;
3. The bearish steepening of the yield curve has hit resistance;
4. Short-term borrowers are accepting rollover risk rather than term-out borrowing in the bond market;
5. Swap spreads are starting to invert; and
6. CDS costs continue to reflect equity market fluctuations more than credit market conditions.

### Key Market Indications

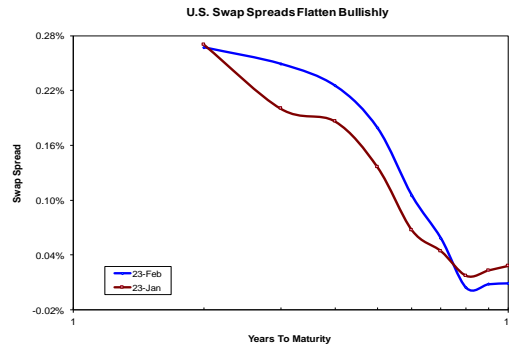
Ten-year UST have yet to test their resistance at 3.05%. While this seems to be a formality, let's remember talk of rising inflation has exceeded actual evidence of rising inflation and the huge demand for high-quality, low capital-cost assets is going to continue to support the long end of the yield curve as seen in this past week's auctions. Moreover, the Federal Reserve does not appear to be in any sort of hurry to raise the federal government's borrowing costs.



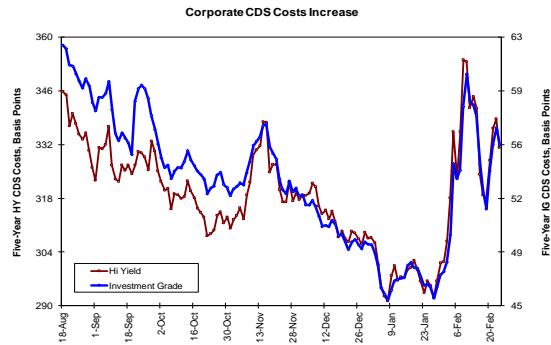
The pseudo-real yield curve shifted higher at the long end of the yield curve. While this did not punish equities, let's just say no one has repealed any financial laws of gravity recently and therefore this is negative news for capital market-horizon assets.



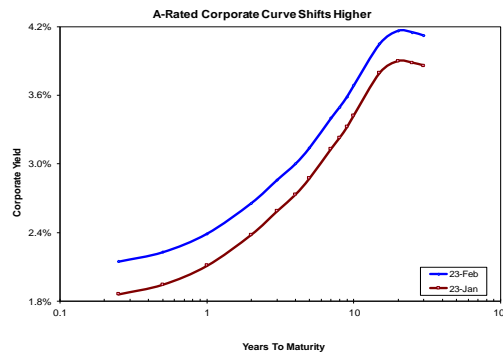
Swap spreads, which rise when floating-rate borrowers want to fix their payments, rose through eight years and declined thereafter. This inversion was common during bonds' recently concluded bull market.



CDS costs continue to reflect movements in equities as correlation trades between stock options and CDS dominate individual issues' credit concerns.



The A-rated corporate yield curve continues to shift higher. However, the combination of rising UST yields and higher credit spreads have improved the risk/reward of what had been a very overbought market.



### Market Structure

Livestock and Industrial Metals are in structural uptrends, while both Softs and Natural Gas are in structural downtrends. Financials all remain within consolidative structures.

	N-Day Speed	Market Structure	Trend Oscillator	HLC Volatility	Daily Trend Rate Feb. 26 - Mar. 2
BBERG	18	Transitional	0.076	10.3%	
BBERG Grain	4	Sideways	0.016	12.3%	
BBERG Ind. Metl	21	Trending	0.008	17.3%	0.11%
BBERG Pre. Metl	19	Transitional	-0.044	11.7%	
BBERG Softs	29	Trending	-0.062	14.1%	-0.12%
BBERG Nat. Gas	29	Trending	-0.123	20.8%	-0.05%
BBERG Petroleum	19	Transitional	0.086	22.8%	
BBERG Livestock	21	Trending	0.057	11.3%	0.21%
Dollar Index	14	Transitional	0.024	7.5%	
S&P 500 Index	4	Sideways	0.080	13.7%	
EAFE Index	4	Sideways	0.013	9.6%	
EM Index	18	Transitional	0.097	15.2%	
Ten-year UST (price)	9	Sideways	0.034	5.3%	

## Performance Measures

The Petroleum complex rebounded on speculation OPEC will be able to enforce production discipline against rising U.S. shale oil production. While this makes sense economically, the history of OPEC argues otherwise. Both Grains and Industrial Metals, gainers last week, turned lower this week.

	Commodity Total Returns			
	Five-Days	One Month	Six Months	One Year
<b>Bloomberg Index</b>	0.55%	-2.21%	7.16%	2.50%
<b>Grains Sub-Index</b>	-0.23%	3.98%	3.30%	-8.68%
Corn	-0.23%	3.03%	0.62%	-10.79%
Soybeans	1.24%	5.27%	7.95%	-1.82%
Wheat	-2.28%	2.60%	0.41%	-13.15%
<b>Energy Sub-Index</b>	3.68%	-7.88%	15.25%	5.79%
Petroleum Sub-Index	-4.50%	-4.52%	29.03%	16.65%
WTI	-4.36%	-3.16%	32.27%	14.19%
Brent	-4.79%	-3.84%	33.02%	19.40%
ULSD	-4.67%	-6.89%	23.06%	18.34%
Gasoline	-4.10%	-6.19%	20.52%	13.00%
Natural Gas	1.35%	-16.44%	-19.01%	-21.98%
<b>Precious Metals Sub-Index</b>	-1.83%	-2.70%	0.90%	0.51%
Gold	-1.81%	-1.87%	2.43%	4.93%
Silver	-1.92%	-5.48%	-3.82%	-11.28%
<b>Industrial Metals Sub-Index</b>	-1.42%	-0.80%	8.29%	18.44%
Copper	-0.93%	0.55%	5.09%	17.63%
Aluminum	-1.12%	-5.16%	2.35%	11.26%
Nickel	-2.71%	0.82%	19.31%	25.23%
Zinc	-1.70%	0.98%	16.23%	25.04%
<b>Softs Sub-Index</b>	0.17%	0.11%	-1.69%	-24.00%
Coffee	-2.50%	-4.84%	-11.27%	-24.48%
Sugar	-0.33%	1.30%	-6.55%	-34.45%
Cotton	5.99%	-0.18%	18.14%	7.85%
<b>Livestock Sub-Index</b>	-0.55%	-0.82%	4.46%	7.40%
Cattle	-1.85%	0.30%	5.07%	10.75%
Hogs	2.40%	-3.17%	2.56%	1.31%

Only the CNY and CLP stood in the way of the USD rising across the board. These markets have had a great deal of difficulty in latching onto the Federal Reserve's intended course of action, but it seems likely they will not accelerate any tightening nor risk toppling U.S. asset markets. In a repudiation of interest rate parity, this more dovish course will be treated as dollar-bullish.

	Currency Returns			
	Five-Days	One Month	Six Months	One Year
Euro	-0.89%	-0.03%	4.13%	16.19%
Chinese yuan	0.07%	1.07%	5.08%	8.35%
Japanese yen	-0.64%	3.20%	2.01%	5.35%
British pound	-0.39%	-0.21%	9.15%	11.27%
Swiss franc	-0.97%	2.31%	3.11%	7.50%
Canadian dollar	-0.59%	-1.69%	-0.63%	3.74%
Australian dollar	-0.78%	-1.96%	-0.77%	1.66%
Swedish krona	-2.50%	-2.03%	-1.39%	10.02%
Norwegian krone	-0.90%	-0.36%	0.21%	6.21%
New Zealand dollar	-1.14%	-0.72%	1.07%	1.00%
Indian rupee	-0.79%	-1.47%	-0.95%	3.24%
Brazilian real	-0.24%	-0.01%	-2.98%	-5.43%
Mexican peso	-0.16%	0.77%	-4.68%	6.00%
Chilean peso	0.33%	3.02%	8.36%	8.48%
Colombian peso	-0.28%	0.39%	4.79%	0.83%
Bloomberg-JP Morgan Asian dollar index (spot)	-0.47%	0.23%	3.60%	5.97%

EAFE markets, the Eurozone in particular, seem to be worried interest rates will rise in those regions faster than in the U.S. and lead to lower relative performance. The career of Mario Draghi suggests he studied Ben Bernanke's patience very well.

	Equity Total Returns			
	Five-Days	One Month	Six Months	One Year
<b>MSCI World Free</b>	0.18%	-4.62%	11.14%	19.11%
North America	0.54%	-3.16%	13.01%	17.79%
Latin America	1.81%	4.15%	12.22%	22.03%
Emerging Market Free	1.42%	-2.74%	14.02%	31.08%
EAFE	-0.44%	-4.90%	8.45%	20.71%
Pacific	0.48%	-4.42%	11.55%	19.10%
Eurozone	-0.82%	-5.90%	5.87%	28.00%

Both CTAs and hedge funds declined again this week as trade turned choppy in equities, fixed-income and currencies. This situation is supposed to bring out traders' skills. It has.

	CTA/Hedge Fund Returns			
	Five-Days	One Month	Six Months	One Year
Newedge CTA	-0.38%	-8.62%	4.82%	-2.93%
Newedge Trend	-0.10%	-6.64%	3.02%	-1.36%
Newedge Short-Term	-0.70%	-3.78%	1.79%	-0.58%
HFR Global Hedge Fund	-0.40%	-1.43%	3.81%	5.15%
HFR Macro/CTA	-1.13%	-3.73%	2.30%	1.82%
HFR Macro:	-0.33%	-6.23%	5.43%	2.15%
Systematic Diversified CTA				