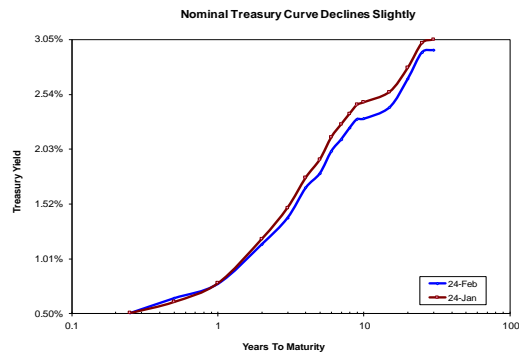


Lost in all of the political theatre loose upon the land is how markets have turned away from an obsession with the Federal Reserve. After all, any conceivable package of short-term rate hikes in 2017 will leave monetary policy wildly stimulative and the Federal Reserve seems very hesitant to shrink its balance sheet or to risk pushing the dollar higher. They are not the driving force now; history shows they will be again someday. The causal chain now is:

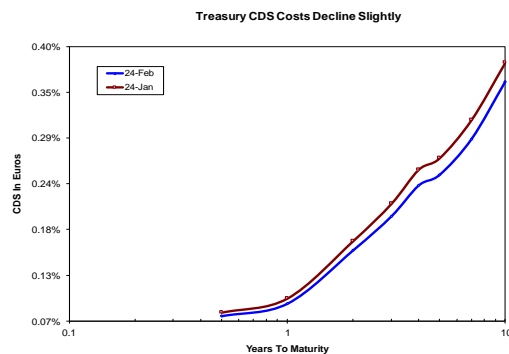
1. The market is nominally pricing in higher short-term rates in 2017, but the conviction levels are weak;
2. Inflationary expectations are starting to turn lower;
3. The U.S. yield curve has resumed in its secular flattening trend;
4. Short-term borrowers have stopped terming out short-term debt into 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

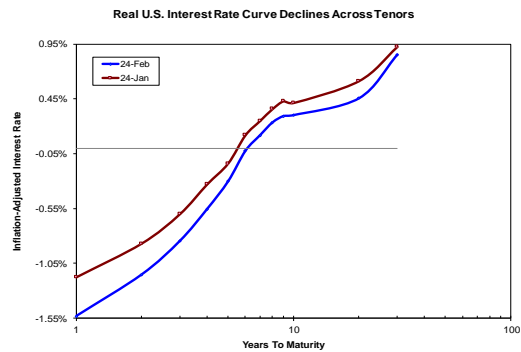
The Treasury market has resumed its primary bullish flattening trend, replete with declining inflation expectations. We have yet to retake the levels prevailing before the election, but this now seems like a formality.



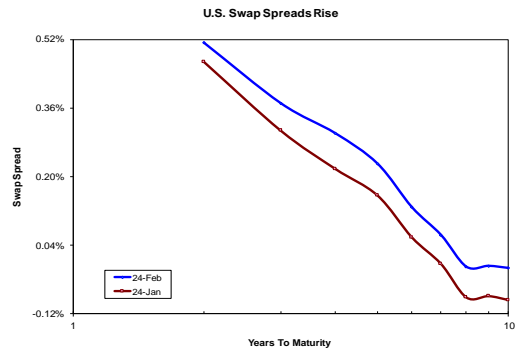
CDS costs on UST have decreased very slightly over the past month. This market is going to remain very quiet until actual budget proposals go before Congress.



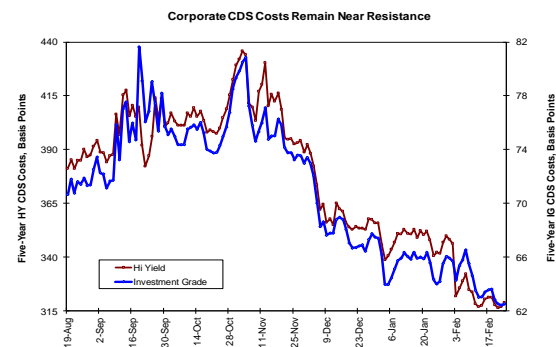
The pseudo-real yield curve has continued to decline at the short end of the yield curve over the past month. This is helping push precious metals higher. More important for risky financial assets, the recent small increases in implied real long-term rates are disappearing.



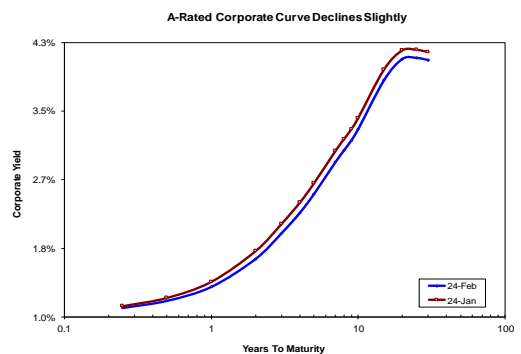
Swap spreads, which rise when floating-rate borrowers want to fix their payments, continue to rise across tenors as the swap market is pricing in higher sovereign rates. The swap market was slow to price in higher rates in November and appears to be behind the curve once again. Heavily insured events have a way of not materializing.



CDS costs were not able to break recent resistance, but neither did they give any sign the recent rally is being rejected. This is a bull market.



The A-rated corporate yield curve has shifted slightly lower over the past month as modest decreases in credit spreads have been joined by modest decreases in UST yields.



Market Structure

Industrial Metals remain in their structural uptrend in the physical markets, while Livestock joined Natural Gas in a structural downtrend. Within the financials, the dollar index moved into a structural uptrend, joining ten-year UST and the S&P 500.

| | N-Day Speed | Market Structure | Trend Oscillator | HLC Volatility | Daily Trend Rate Feb. 27 - Mar. 3 |
|----------------------|-------------|------------------|------------------|----------------|--------------------------------------|
| BBERG | 18 | Transitional | -0.098 | 7.3% | |
| BBERG Grain | 18 | Transitional | -0.111 | 12.5% | |
| BBERG Ind. Metl | 29 | Trending | 0.083 | 16.1% | 0.50% |
| BBERG Pre. Metl | 9 | Sideways | 0.171 | 9.4% | |
| BBERG Softs | 18 | Transitional | -0.142 | 13.2% | |
| BBERG Nat. Gas | 29 | Trending | -0.354 | 27.2% | -0.47% |
| BBERG Petroleum | 9 | Sideways | 0.002 | 16.3% | |
| BBERG Livestock | 24 | Trending | -0.084 | 9.9% | -0.07% |
| Dollar Index | 29 | Trending | 0.070 | 7.4% | 0.09% |
| S&P 500 Index | 29 | Trending | 0.437 | 5.9% | 0.08% |
| EAFE Index | 18 | Transitional | 0.049 | 7.5% | |
| EM Index | 5 | Sideways | -0.042 | 6.9% | |
| Ten-year UST (price) | 29 | Trending | 0.177 | 5.3% | 0.02% |

Performance Measures

Grains continued their recent move lower and were joined by Softs and Industrial Metals. Natural Gas continues to reel under the now-concluded warm spell in the eastern consuming region. The main Bloomberg index continues to grind lower; whatever happened to those strong post-election rallies on the notion of fiscal stimulus?

| | Five-Days | One Month | Six Months | One Year |
|------------------------------------|-----------|-----------|------------|----------|
| Bloomberg Index | -1.12% | -0.52% | 3.17% | 16.36% |
| Grains Sub-Index | -2.65% | -0.05% | 5.70% | -0.74% |
| Corn | -2.68% | 0.28% | 9.28% | -5.74% |
| Soybeans | -2.88% | -3.34% | 3.12% | 16.65% |
| Wheat | -2.86% | 3.62% | 2.66% | -14.92% |
| Energy Sub-Index | -1.16% | -4.93% | -1.46% | 25.84% |
| Petroleum Sub-Index | 0.34% | 0.07% | 4.26% | 31.79% |
| WTI | 0.47% | 0.35% | 4.48% | 31.05% |
| Brent | 0.57% | 0.51% | 3.95% | 37.09% |
| ULSD | 0.33% | 0.23% | 3.57% | 36.55% |
| Gasoline | -0.33% | -1.42% | 6.13% | 19.83% |
| Natural Gas | -5.71% | -18.25% | -16.36% | 9.97% |
| Precious Metals Sub-Index | 1.38% | 6.06% | -4.65% | 7.38% |
| Gold | 1.36% | 5.69% | -5.39% | 2.08% |
| Silver | 1.44% | 7.05% | -2.59% | 22.88% |
| Industrial Metals Sub-Index | -1.18% | 3.25% | 20.60% | 28.62% |
| Copper | -1.43% | -0.23% | 28.40% | 24.70% |
| Aluminum | -0.52% | 3.69% | 14.01% | 18.23% |
| Nickel | -1.90% | 14.55% | 9.89% | 25.91% |
| Zinc | -0.96% | 3.00% | 21.27% | 58.84% |
| Softs Sub-Index | -1.63% | -3.06% | -0.99% | 28.54% |
| Coffee | -1.44% | -5.56% | -2.62% | 15.99% |
| Sugar | -2.40% | -2.40% | -6.43% | 35.23% |
| Cotton | -0.25% | 0.70% | 10.03% | 30.87% |
| Livestock Sub-Index | 0.01% | -1.41% | 4.50% | -9.58% |
| Cattle | 1.51% | -1.98% | 6.90% | -7.11% |
| Hogs | -2.57% | -0.36% | 0.73% | -13.59% |

Currency markets have turned quite mixed on the realization the U.S. is not going to enter the combination of fiscal stimulus and monetary restraint that would combine to push the USD higher. This return to reality is being reflected in the MXN market as well. It will be interesting to watch the EUR and EURCHF as French elections approach; why anyone would be carelessly long is uncertain.

| | Five-Days | One Month | Six Months | One Year |
|--|-----------|-----------|------------|----------|
| Currency Returns | | | | |
| Euro | -0.50% | -1.57% | -6.22% | -4.09% |
| Chinese yuan | -0.04% | -0.15% | -3.06% | -4.91% |
| Japanese yen | 0.64% | 1.49% | -10.41% | 0.05% |
| British pound | 0.40% | -0.46% | -5.82% | -10.52% |
| Swiss franc | -0.49% | -0.65% | -4.02% | -1.86% |
| Canadian dollar | 0.04% | 0.51% | -1.25% | 4.67% |
| Australian dollar | 0.16% | 1.24% | 0.83% | 6.67% |
| Swedish krona | -1.37% | -2.07% | -7.07% | -6.04% |
| Norwegian krone | -0.41% | -0.29% | -1.88% | 3.46% |
| New Zealand dollar | 0.39% | -0.51% | -1.40% | 8.27% |
| Indian rupee | 0.37% | 2.08% | 0.36% | 2.64% |
| Brazilian real | -0.41% | 1.93% | 3.68% | 27.24% |
| Mexican peso | 2.60% | 8.11% | -7.31% | -8.53% |
| Chilean peso | -0.21% | 0.88% | 3.73% | 7.72% |
| Colombian peso | 0.05% | 1.41% | 1.80% | 15.58% |
| Bloomberg-JP Morgan Asian dollar index (spot) | 0.37% | 0.83% | -2.00% | -0.40% |

The EAFE in general and Eurozone equities turned lower this week on Frexit fears. What; we did not have enough neologisms in markets? This is going to have the effect of pushing the non-U.S. rally increasingly into the EM space.

| | Five-Days | One Month | Six Months | One Year |
|-----------------------------|-----------|-----------|------------|----------|
| Equity Total Returns | | | | |
| MSCI World Free | 0.30% | 2.31% | 7.77% | 21.53% |
| North America | 0.55% | 3.81% | 9.83% | 26.13% |
| Latin America | -0.07% | 3.55% | 9.69% | 51.85% |
| Emerging Market Free | 0.51% | 3.92% | 6.11% | 31.62% |
| EAFE | -0.14% | 1.71% | 3.44% | 18.19% |
| Pacific | 0.57% | 2.26% | 7.53% | 23.87% |
| Eurozone | -0.83% | -1.20% | 3.00% | 13.91% |

Both CTAs and hedge funds managed small gains again this week, making it three weeks in a row. The strong gains for hedge funds once again appear linked to advances in equity indices.

| | Five-Days | One Month | Six Months | One Year |
|-------------------------------|-----------|-----------|------------|----------|
| CTA/Hedge Fund Returns | | | | |
| Newedge CTA | 0.59% | 3.78% | -5.51% | -9.14% |
| Newedge Trend | 0.46% | 2.90% | -4.55% | -7.54% |
| Newedge Short-Term | -0.54% | -1.38% | -9.09% | -10.97% |
| HFR Global Hedge Fund | 0.04% | 1.47% | 3.15% | 8.22% |
| HFR Macro/CTA | 0.51% | 2.00% | -1.79% | -3.42% |
| HFR Macro | 0.84% | 3.40% | -3.60% | -5.44% |
| Systematic Diversified CTA | | | | |