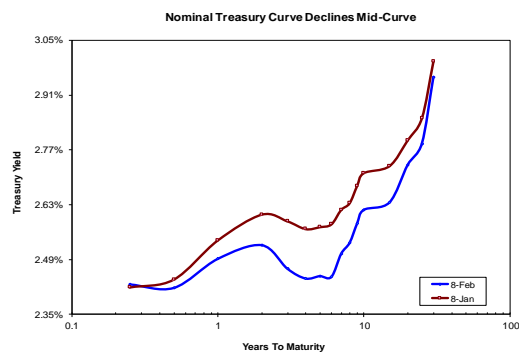


Can risky assets rise in a slow-growth earnings recession? The answer leans toward, “Yes.” While financial professionals obsess over earning, the reality is monetary accommodation, low inflation and stable interest rates contribute to the TINA trade and therefore to flights into high-yield bonds and growth stocks. To say otherwise is to ignore several decades of data. The causal chain now is:

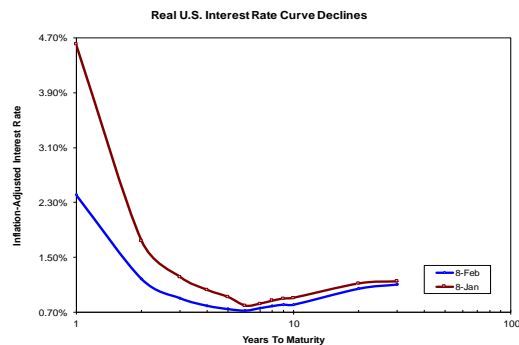
1. The market has priced out a 2019 rate hike;
2. The yield curve is holding its weak positive slope;
3. Inflationary expectations have stopped rising;
4. Short-term borrowers are accepting rollover risk rather than term-out borrowing in the bond market;
5. Swap spreads are steepening bullishly; and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

Key Market Indications

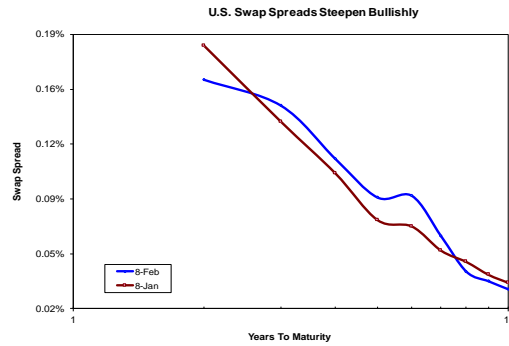
As noted last week, a high level of residual risk aversion will stem any increase in long-term rates throughout the first quarter. While the path of least resistance for yields remains lower, the sense remains global monetary policies are only pausing in their secular tightening path. This has led to an exaggerated rally in the middle of the yield curve, not at its long end.



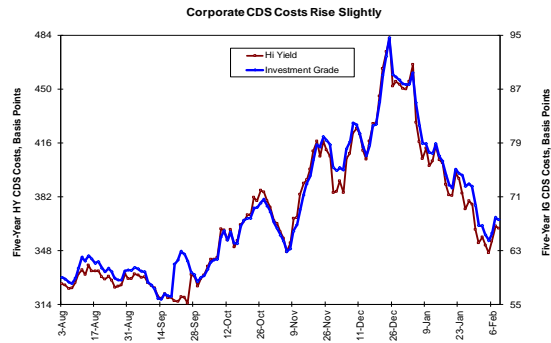
The pseudo-real yield curve is declining across the maturity spectrum, especially at the short end of the yield curve, expectations for tighter monetary policy dissipate.



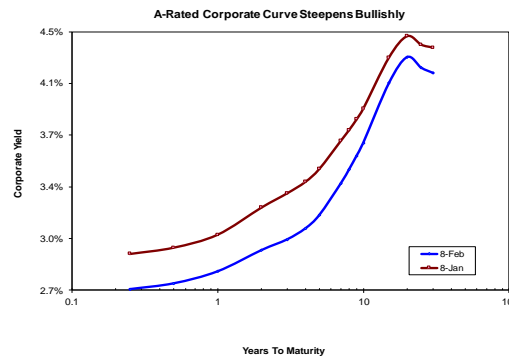
Swap spreads, which rise when floating-rate borrowers want to fix their payments, have declined slightly at the long end of the yield curve and have risen mid-curve. However, these changes are minor and do not reflect a large shift in sentiment.



CDS costs remain linked to the equity markets. This week's pullback has led to a small upturn in credit risk.



As have been the recent case, 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

Both Grains and Softs have exited structural uptrends. This is consistent with the dissipation of what has been a bear-market rally. All of the equity indices are in structural uptrends.

	N-Day Speed	Market Structure	Trend Oscillator	HLC Volatility	Daily Trend Rate Feb. 11 - 15
BBerg	29	Trending	0.106	8.9%	0.16%
BBerg Grain	29	Trending	-0.052	10.3%	
BBerg Ind. Metl	29	Trending	0.302	11.9%	0.36%
BBerg Pre. Metl	18	Transitional	0.134	7.0%	
BBerg Softs	24	Trending	-0.099	13.0%	
BBerg Nat. Gas	24	Trending	-0.169	21.9%	-0.15%
BBerg Petroleum	9	Sideways	-0.016	27.4%	
BBerg Livestock	29	Trending	-0.162	8.7%	-0.15%
Dollar Index	14	Transitional	0.156	4.1%	
S&P 500 Index	29	Trending	0.232	13.5%	0.27%
EAFE Index	29	Trending	0.093	10.3%	0.20%
EM Index	29	Trending	0.260	9.9%	0.41%
Ten-year UST (price)	19	Transitional	0.154	3.8%	

Performance Measures

The entire Energy complex moved lower on the week as speculation of lower global demand continued to build. The small declines seen elsewhere underscore the obvious, that Chinese stimulus will not produce the demand growth it might have more than a decade ago and that few markets have supply constraints.

	Commodity Total Returns			
	Five-Days	One Month	Six Months	One Year
Bloomberg Index	-1.06%	0.70%	-3.84%	-4.55%
Grains Sub-Index	-0.96%	-0.28%	-3.34%	-7.48%
Corn	-1.00%	-0.86%	-1.19%	-7.66%
Soybeans	-0.30%	0.66%	4.19%	-11.63%
Wheat	-1.35%	-0.31%	-9.92%	1.29%
Energy Sub-Index	-2.78%	-1.72%	-13.36%	-0.06%
Petroleum Sub-Index	-1.90%	1.94%	-17.03%	-2.80%
WTI	-4.54%	1.76%	-20.24%	-6.28%
Brent	-1.16%	2.10%	-14.34%	3.12%
ULSD	-0.18%	2.14%	-9.36%	6.18%
Gasoline	0.59%	2.07%	-23.94%	-15.80%
Natural Gas	-5.49%	-12.13%	-8.15%	1.28%
Precious Metals Sub-Index	-0.34%	1.74%	7.09%	-1.06%
Gold	-0.23%	1.92%	8.32%	-0.52%
Silver	-0.72%	1.17%	3.00%	-2.84%
Industrial Metals Sub-Index	-0.16%	6.07%	-2.19%	-9.00%
Copper	1.40%	5.78%	2.24%	-8.38%
Aluminum	-0.13%	2.31%	-10.52%	-9.39%
Nickel	-0.77%	9.66%	-9.16%	-3.25%
Zinc	-3.06%	8.70%	10.41%	-15.31%
Softs Sub-Index	-0.25%	-0.54%	-3.27%	-14.89%
Coffee	-1.01%	-1.01%	-8.66%	-23.19%
Sugar	0.89%	-0.39%	14.03%	-13.04%
Cotton	-1.43%	0.28%	-15.74%	-4.29%
Livestock Sub-Index	0.11%	-3.29%	6.44%	-0.78%
Cattle	1.35%	1.44%	9.74%	5.02%
Hogs	-2.78%	-13.18%	-0.03%	-12.72%

Only the CNY and MXN gained against the USD this week as evidence continues to mount non-U.S. central banks will remain relatively accommodative. Until and unless the Federal Reserve signals a complete reversal of its 2018 hawkishness, the path of resistance for the USD remains higher.

	Currency Returns			
	Five-Days	One Month	Six Months	One Year
Euro	-1.16%	-1.03%	-2.47%	-7.54%
Chinese yuan	0.04%	1.97%	1.15%	-6.61%
Japanese yen	-0.21%	-0.89%	1.14%	-0.90%
British pound	-1.03%	1.79%	0.48%	-6.96%
Swiss franc	-0.49%	-1.92%	-0.72%	-6.43%
Canadian dollar	-1.33%	-0.03%	-1.92%	-5.08%
Australian dollar	-2.23%	-0.73%	-4.62%	-8.91%
Swedish krona	-2.41%	-3.74%	-3.47%	-12.47%
Norwegian krone	-2.31%	-1.01%	-4.86%	-8.22%
New Zealand dollar	-2.32%	0.25%	-0.10%	-6.62%
Indian rupee	-0.08%	-1.55%	-3.76%	-9.89%
Brazilian real	-2.02%	-0.49%	1.07%	-11.97%
Mexican peso	0.15%	1.44%	-3.19%	-0.95%
Chilean peso	-1.02%	3.24%	-2.03%	-8.51%
Colombian peso	-0.83%	1.60%	-6.65%	-7.36%
Bloomberg-JP Morgan Asian dollar index (spot)	-0.14%	0.59%	0.45%	-4.07%

The pattern of recent weeks was reversed as a stronger USD led to declines in both the EM and EAFE indices.

	Equity Total Returns			
	Five-Days	One Month	Six Months	One Year
MSCI World Free	-0.41%	3.36%	-4.61%	1.01%
North America	0.11%	4.57%	-3.57%	5.30%
Latin America	-3.34%	3.04%	6.96%	-1.14%
Emerging Market Free	-0.78%	4.11%	-1.00%	-6.23%
EAFE	-0.41%	2.11%	-5.64%	-5.44%
Pacific	-1.02%	0.64%	-5.79%	-6.01%
Eurozone	-2.37%	0.90%	-9.00%	-10.35%

Both CTAs and hedge funds gained on the week, an interesting pattern given their notable reliance on equity trends. This suggest a willingness to embrace a slow-growth story.

	CTA/Hedge Fund Returns			
	Five-Days	One Month	Six Months	One Year
SocGen CTA	0.62%	-0.43%	-6.19%	-7.42%
SocGen Trend	0.27%	-0.28%	-2.99%	-4.70%
SocGen Short-Term	-0.57%	-1.89%	-2.11%	-3.39%
HFR Global Hedge Fund	0.18%	1.38%	-3.80%	-5.39%
HFR Macro/CTA	0.86%	-0.25%	-3.42%	-5.25%
HFR Macro: Systematic Diversified CTA	1.55%	-0.26%	-4.51%	-5.57%