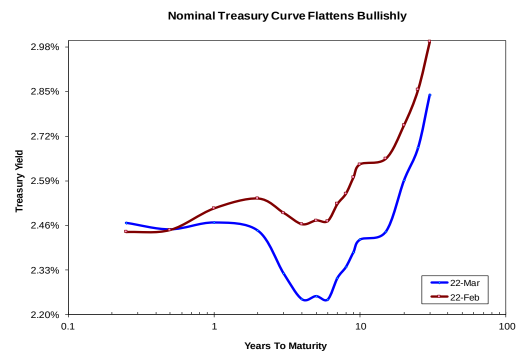
The Macro Environment For Financial Markets

As John Updike said of Ted Williams, "Gods do not answer letters." The same should apply for Federal Reserve chairmen; the whole affair depends on the aura of omniscience. The December rate hike and the farcical "dot plot" self-forecasting should prove central bankers do not know more than the rest of us, they just have bigger egos. The causal chain now is:

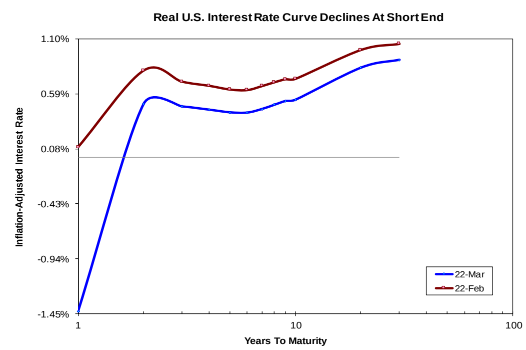
1. The market has priced out a 2019 rate hike but has yet to price in a rate cut;
2. The yield curve is holding its positive slope, but is inverted along various segments;
3. Inflationary expectations are declining;
4. Short-term borrowers are accepting rollover risk rather than term-out borrowing in the bond market;
5. Swap spreads are declining; and
6. CDS costs continue to mirror equity movements.

Key Market Indications

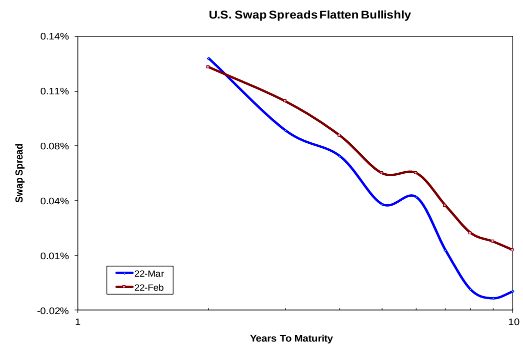
The rally in UST continues and the ten-year is back to where it started 2018. Other sovereign yields are behaving similarly and at lower levels. While modern monetary theory may rank with phlogiston in the pseudo-science department, one cannot escape the notion deficits have yet to affect either inflation or nominal interest rates.



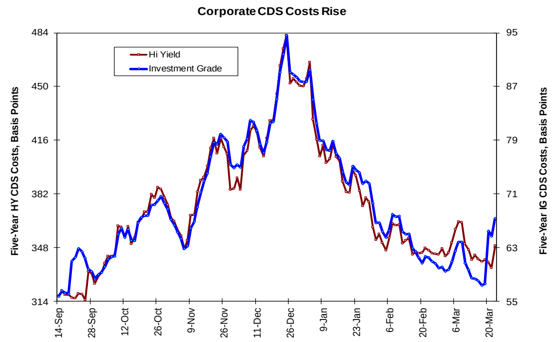
The strong decline in pseudo-real short-term rates continues and is being joined at the long end as breakevens rise in the face of declining nominal yields. While this is bullish for both precious metals and for risky financial assets, a recession is not bullish for either; hence the weaker performance in metals and the Friday selloff in equities.



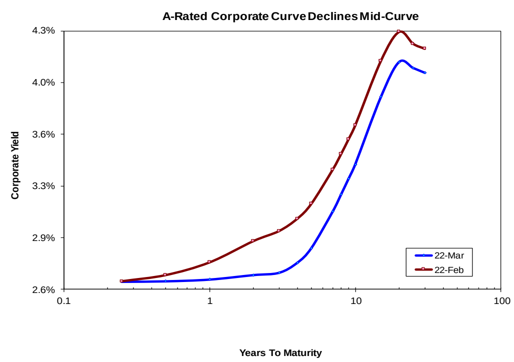
Swap spreads, which rise when floating-rate borrowers want to fix their payments, have declined across all tenors. The market is complacent about higher credit spreads and interest rate shifts.



CDS costs rose as correlation trades against equities mandated the buying of credit protection. Corporate bonds are woefully overpriced if the U.S. economy follows the rest of the world into recession; fortunately, no evidence of that exists yet.



Corporate bonds are rallying mid-curve as money flows out of equities and into debt. This will be a successful trade until and unless credit spreads start to rise faster than Treasury rates decline.



Market Structure
Only Natural Gas and Livestock are in structural uptrends amongst physical assets; Softs are in a downtrend. Ten-year UST are in an overbought zone.

	N-Day Speed	Market Structure	Trend Oscillator	HLC Volatility	Daily Trend Rate Mar. 18 - 22
BBerg	19	Transitional	0.064	7.4%	
BBerg Grain	9	Sideways	0.064	13.0%	
BBerg Ind. Metl	12	Transitional	-0.047	14.4%	
BBerg Pre. Metl	29	Trending	0.004	7.8%	
BBerg Softs	29	Trending	-0.114	12.7%	-0.41%
BBerg Nat. Gas	29	Trending	0.017	17.3%	0.55%
BBerg Petroleum	14	Transitional	0.004	18.2%	
BBerg Livestock	29	Trending	0.709	12.8%	0.06%
Dollar Index	16	Transitional	-0.018	4.9%	
S&P 500 Index	15	Transitional	0.001	10.2%	
EAFE Index	14	Transitional	0.038	8.1%	
EM Index	17	Transitional	0.059	8.1%	
Ten-year UST (price)	29	Trending	0.407	3.9%	0.20%

Performance Measures

Hogs returned 10.6% this week, following on last week's 11.8% return. None of the other physical commodity markets have had an interesting path this month despite a strong performance by gasoline.

Commodity Total Returns

	Five-Days	One Month	Six Months	One Year
Bloomberg Index	0.25%	0.72%	-2.79%	-4.46%
Grains Sub-Index	0.49%	-1.22%	-3.11%	-12.99%
Corn	1.39%	-0.29%	-0.04%	-10.38%
Soybeans	-0.56%	-2.13%	3.32%	-16.85%
Wheat	0.86%	-1.26%	-11.72%	-8.93%
Energy Sub-Index	-0.20%	2.58%	-13.31%	-0.29%
Petroleum Sub-Index	0.11%	4.04%	-17.75%	-4.83%
WTI	0.42%	5.76%	-19.08%	-7.96%
Brent	-0.51%	2.93%	-17.52%	-0.70%
ULSD	-0.17%	-0.13%	-12.82%	0.62%
Gasoline	2.47%	10.09%	-19.24%	-10.51%
Natural Gas	-1.20%	-1.91%	-5.93%	6.47%
Precious Metals Sub-Index	0.75%	-1.61%	8.31%	-4.47%
Gold	0.80%	-1.15%	9.05%	-3.42%
Silver	0.59%	-3.11%	5.98%	-7.87%
Industrial Metals Sub-Index	-0.51%	-0.79%	0.73%	-4.61%
Copper	-2.14%	-3.45%	1.00%	-5.63%
Aluminum	0.29%	-0.38%	-8.54%	-5.17%
Nickel	0.50%	0.12%	0.31%	0.18%
Zinc	1.30%	4.10%	16.97%	-6.55%
Softs Sub-Index	-0.82%	-3.44%	-1.02%	-15.09%
Coffee	-3.94%	-5.80%	-8.08%	-27.85%
Sugar	0.45%	-3.15%	15.18%	-6.15%
Cotton	1.48%	4.94%	-5.71%	-5.73%
Livestock Sub-Index	4.96%	13.62%	12.38%	19.40%
Cattle	1.34%	2.33%	9.80%	17.48%
Hogs	10.63%	38.57%	13.01%	18.81%

Perhaps it is best currency-trading volumes have declined; given the choppy trade and counterintuitive patterns of this past week, few traders would have prospered. The gains by haven currencies such as the CHF and JPY are notable, as are the declines in the BRL.

Currency Returns

	Five-Days	One Month	Six Months	One Year
Euro	-0.21%	-0.29%	-3.80%	-8.13%
Chinese yuan	-0.07%	-0.07%	2.07%	-5.70%
Japanese yen	1.42%	0.70%	2.62%	-4.22%
British pound	-0.61%	1.20%	0.68%	-6.29%
Swiss franc	0.86%	0.68%	-2.95%	-4.47%
Canadian dollar	-0.69%	-2.19%	-3.52%	-3.65%
Australian dollar	-0.03%	-0.65%	-2.33%	-7.93%
Swedish krona	-0.54%	0.71%	-5.18%	-11.02%
Norwegian krone	-0.34%	0.63%	-4.88%	-9.45%
New Zealand dollar	0.48%	0.48%	3.52%	-4.55%
Indian rupee	0.16%	3.12%	5.29%	-5.62%
Brazilian real	-2.36%	-4.08%	4.70%	-15.14%
Mexican peso	0.61%	0.27%	-0.65%	-2.39%
Chilean peso	-1.65%	-4.26%	-1.43%	-10.63%
Colombian peso	-0.06%	-0.65%	-4.28%	-8.51%
Bloomberg-JP Morgan Asian dollar index (spot)	-0.06%	-0.24%	1.34%	-4.27%

While accommodative monetary policy is important, stocks tend to rally in anticipation of a recovery, not in fear of a recession. The downturn in the EM index in general should be taken as a warning sign of rising risk-aversion.

Equity Total Returns

	Five-Days	One Month	Six Months	One Year
MSCI World Free	-0.63%	0.38%	-3.46%	5.48%
North America	-0.78%	0.22%	-2.89%	9.97%
Latin America	-4.81%	-6.38%	8.34%	-7.44%
Emerging Market Free	1.18%	0.30%	3.54%	-6.14%
EAFE	0.57%	1.59%	-3.68%	-1.26%
Pacific	1.83%	0.47%	-3.71%	-1.61%
Eurozone	-2.46%	0.03%	-7.35%	-6.50%

While CTAs rose on the week, most likely riding the back of bullish interest rate trades, hedge funds declined as they are wont to do whenever equities struggle.

CTA/Hedge Fund Returns

	Five-Days	One Month	Six Months	One Year
SocGen CTA	0.93%	3.17%	-2.53%	-4.57%
SocGen Trend	0.41%	1.83%	-0.67%	-2.99%
SocGen Short-Term	-0.07%	0.17%	-2.22%	-2.49%
HFR Global Hedge Fund	-0.05%	0.23%	-3.05%	-4.14%
HFR Macro/CTA	0.48%	1.97%	-0.12%	-2.13%
HFR Macro: Sytematic Diversified CTA	-0.01%	2.02%	-1.48%	-3.31%