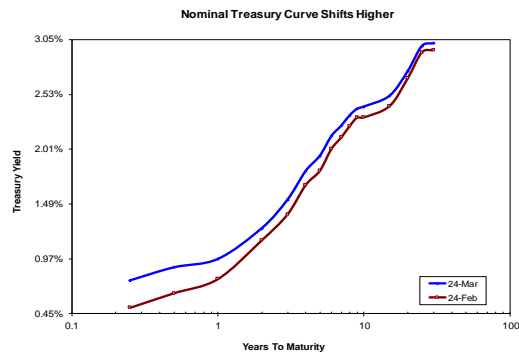


Political expectations giveth and they also taketh away. The rationale behind the so-called Trump or reflation trade has faded with the unmitigated disaster of Obamacare repeal. This is going to lead to a relative retrenchment of U.S. equities, a slowdown in inflation expectations and very likely to a reduced pace of interest rate hikes now that wholesale fiscal stimulus appears less likely. The causal chain remains:

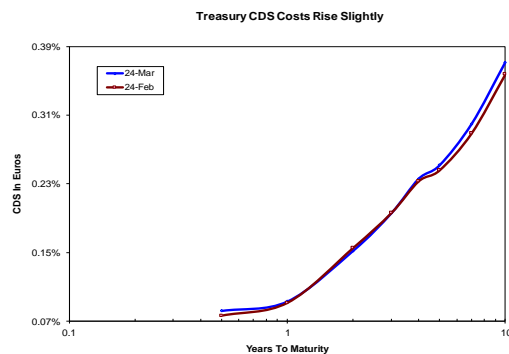
1. The market still is pricing in higher short-term rates in 2017;
2. Inflationary expectations have stopped rising;
3. The U.S. yield curve continues in its secular flattening trend;
4. Short-term borrowers have stopped terming out short-term debt into the bond market;
5. Swap spreads are lowering their expectation of higher future short-term rates; and
6. CDS costs remain consistent with a bull market in risky assets.

Key Market Indications

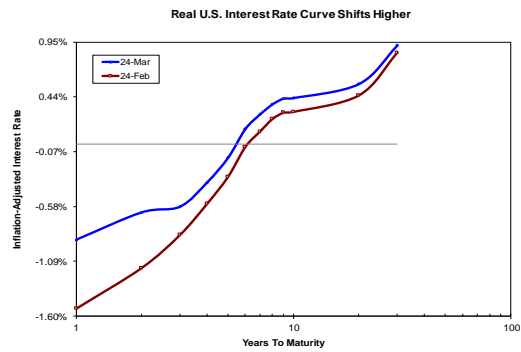
The flattening of the yield curve via relatively higher short-term rates continues. The threat of a UST selloff in the face of excessive fiscal stimulus will prevent the federal government from going overboard on that stimulus. It is doubtful tax cuts will arrive at the pace expected earlier, and this will keep the long end of the yield curve well-bid.



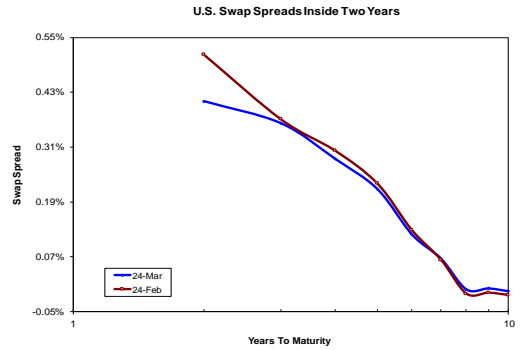
CDS costs on UST have move very slightly higher. I commented last week this market is going to remain very quiet until and unless the Republican Congress decides to engage in a civil war. That may yet come to pass.



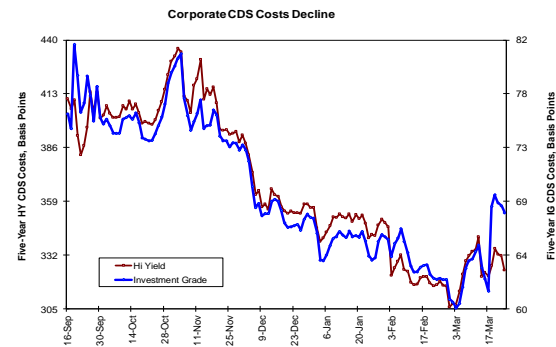
The pseudo-real yield curve rose across the maturity spectrum. Unlike previous increases at the short end of the yield curve, this did not push precious metals lower this week. That was attributable more to rising levels of risk aversion than any cost-of-carry development. The small increase at the long end of the yield curve did not affect risky assets.



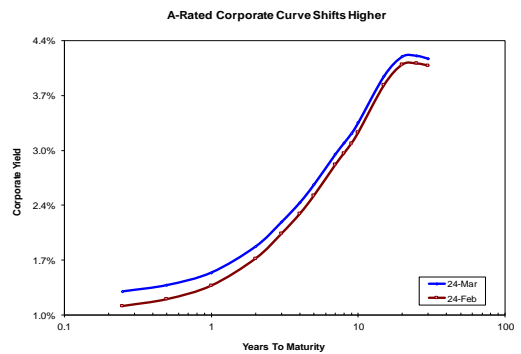
Swap spreads, which rise when floating-rate borrowers want to fix their payments, shifted lower at the short end of the yield curve. This is consistent with moderating expectations for rate hikes going forward in 2017.



CDS costs jumped, especially for investment-grade bonds. This was not so much a credit event as it was a correlation trade based on the downturn in equities.



The A-rated corporate yield curve sold off across the maturity spectrum in response to higher credit spreads. This is a pause in a bull market, for now, but the risk/reward simply does not favor strong gains while the yield curve is flattening bearishly.



Market Structure

Precious Metals reversed into a structural uptrend, joining Livestock, but all other physical markets remain under pressure. The dollar index entered a downtrend, ten-year UST exited their downtrend and the EM index joined the EAFE in an uptrend within the financials.

	N-Day Speed	Market Structure	Trend Oscillator	HLC Volatility	Daily Trend Rate Mar. 27 - 31
BBERG	7	Sideways	-0.040	6.8%	
BBERG Grain	29	Trending	-0.308	13.4%	-0.44%
BBERG Ind. Metl	22	Trending	-0.022	13.9%	-0.19%
BBERG Pre. Metl	29	Trending	0.113	9.6%	0.11%
BBERG Softs	8	Sideways	-0.083	12.9%	
BBERG Nat. Gas	17	Transitional	0.174	21.9%	
BBERG Petroleum	7	Sideways	-0.034	16.8%	
BBERG Livestock	29	Trending	0.156	9.8%	0.22%
Dollar Index	29	Trending	-0.243	5.8%	-0.20%
S&P 500 Index	15	Transitional	-0.128	7.2%	
EAFE Index	29	Trending	0.217	8.3%	0.07%
EM Index	20	Trending	0.249	9.2%	0.43%
Ten-year UST (price)	29	Trending	0.100	4.4%	

Performance Measures

If it were not for the Precious Metals moving higher on the pullback in the USD and declines in U.S. equities, it would have been a bad week indeed for physical commodities. The most unusual aspect of this retreat is that it is coming not from economic weakness in general and Chinese weakness in particular, but rather from overhangs in production capacity, especially in the petroleum market.

	Five-Days	One Month	Six Months	One Year
Bloomberg Index	-0.71%	-3.33%	0.49%	7.08%
Grains Sub-Index	-2.94%	-4.68%	-0.15%	-8.78%
Com	-3.05%	-3.86%	1.44%	-11.97%
Soybeans	-2.41%	-4.68%	-0.47%	5.42%
Wheat	-2.62%	-5.14%	-1.98%	-21.19%
Energy Sub-Index	0.11%	-5.29%	-1.28%	7.97%
Petroleum Sub-Index	-1.61%	-10.01%	1.15%	4.63%
WTI	-2.70%	-11.64%	0.28%	1.45%
Brent	-1.88%	-9.86%	1.88%	8.67%
ULSD	-0.72%	-9.11%	1.36%	11.39%
Gasoline	0.05%	-8.22%	1.22%	-2.76%
Natural Gas	4.97%	10.00%	-7.50%	20.36%
Precious Metals Sub-Index	1.63%	-1.52%	-8.41%	4.71%
Gold	1.52%	-0.75%	-7.23%	1.12%
Silver	1.94%	-3.52%	-11.09%	14.74%
Industrial Metals Sub-Index	-1.39%	-1.62%	15.26%	25.20%
Copper	-2.23%	-2.36%	18.70%	16.05%
Aluminum	1.38%	2.74%	17.66%	29.05%
Nickel	-3.82%	-9.25%	-8.16%	12.31%
Zinc	-1.80%	-0.06%	23.52%	55.79%
Softs Sub-Index	-2.41%	-6.50%	-13.60%	9.25%
Coffee	-3.12%	-5.86%	-12.32%	-1.41%
Sugar	-2.52%	-10.55%	-21.70%	6.68%
Cotton	-1.12%	1.23%	8.11%	32.01%
Livestock Sub-Index	0.94%	3.76%	14.01%	-5.20%
Cattle	2.91%	7.23%	15.14%	0.46%
Hogs	-2.02%	-1.38%	11.96%	-13.72%

The USD gained against commodity-linked equities such as the CAD, AUD and NOK and against the corruption-wracked BRL but continued to retreat elsewhere. The currency market is making a dual bet all rate hikes for the U.S. in 2017 are in the market already and that U.S. equities are going to underperform markets elsewhere.

	Five-Days	One Month	Six Months	One Year
Euro	0.56%	2.22%	-4.05%	-3.77%
Chinese yuan	0.29%	-0.21%	-3.12%	-5.36%
Japanese yen	1.22%	0.70%	-9.89%	1.40%
British pound	0.62%	0.09%	-3.87%	-11.87%
Swiss franc	0.69%	1.62%	-2.24%	-1.58%
Canadian dollar	-0.21%	-2.15%	-1.13%	-0.97%
Australian dollar	-1.05%	-0.69%	-0.17%	1.26%
Swedish krona	0.31%	2.58%	-3.12%	-5.85%
Norwegian krone	-0.21%	-1.39%	-4.55%	-0.11%
New Zealand dollar	0.16%	-2.52%	-3.38%	4.86%
Indian rupee	0.09%	2.16%	1.83%	1.87%
Brazilian real	-0.53%	0.08%	4.32%	18.36%
Mexican peso	1.70%	6.15%	5.97%	-6.12%
Chilean peso	0.27%	-2.16%	0.20%	3.09%
Colombian peso	0.55%	-0.26%	0.84%	6.05%
Bloomberg-JP Morgan Asian dollar index (spot)	0.30%	0.34%	-1.75%	-1.76%

The U.S. underperformed the rest of the world again this week. This is actually a long-overdue adjustment as the U.S. detached from the rest of the world following the November election.

	Five-Days	One Month	Six Months	One Year
MSCI World Free	-0.90%	0.47%	7.89%	16.75%
North America	-1.40%	-0.94%	9.06%	17.95%
Latin America	0.59%	0.26%	10.82%	29.38%
Emerging Market Free	0.42%	2.86%	6.45%	22.32%
EAFE	-0.04%	2.97%	5.91%	14.71%
Pacific	-0.34%	0.66%	5.36%	18.11%
Eurozone	0.56%	6.55%	9.40%	16.08%

Both CTAs and hedge funds posted losses over the week in keeping with their long-equity bias. The overriding story continues to be the industry's shrinkage.

	Five-Days	One Month	Six Months	One Year
Newedge CTA	-1.68%	-3.72%	-6.19%	-9.28%
Newedge Trend	-0.92%	-1.98%	-4.63%	-6.55%
Newedge Short-Term	-0.12%	0.13%	-7.00%	-9.62%
HFR Global Hedge Fund	-0.33%	-0.40%	2.69%	6.14%
HFR Macro/CTA	0.00%	-1.18%	-1.85%	-3.49%
HFR Macro	-1.05%	-2.62%	-4.68%	-5.40%
Systematic Diversified CTA				