
The Macro Environment For Financial Markets

Tom Petty had it right: Waiting is the hardest part. Even though the financial services industry is less transaction-based than it was, traders want to trade, analysts want to analyze and brokers, I dunno, want to break things. Everyone gets what they want from the market. However, now that we have eliminated the biggest source of electrochemical potential between the anode of Eurozone QE and the cathode of U.S. monetary tightening, we have a situation where the ease flows will stop and the changes will be more incremental. In years past, you could get paid to wait. Now you get paid nothing in the U.S. and you have to pay in the Eurozone. Where's the fun in that? The bad part is idle hands are you-know-who's helpers and quiet markets usually lead to profit-taking of the kind seen in biotech last week and in utilities earlier this year.

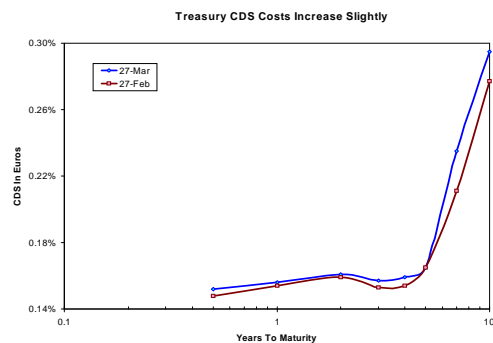
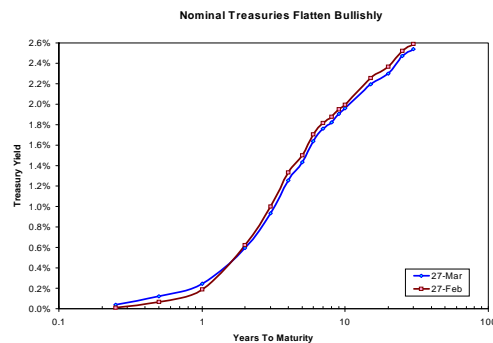
The causal chain now is:

1. Short-term interest rates will remain artificially low globally but will start moving higher in the U.S. at some point;
2. Disinflationary pressures will remain so long as the global banking system remains unable to expand credit;
3. Inflation expectations as measured by the TIPS market will remain confined as the demand for inflation protection will recede in a more risk-seeking environment;
4. Sovereign debt yields will remain in their secular bull market;
5. The U.S. yield will retain a bias toward flattening;
6. Short-term borrowers will continue to accept rollover risk;
7. Swap spreads will remain tame until monetary policy indications turn more hawkish; and
8. Credit spreads will remain well-confined at historically low levels.

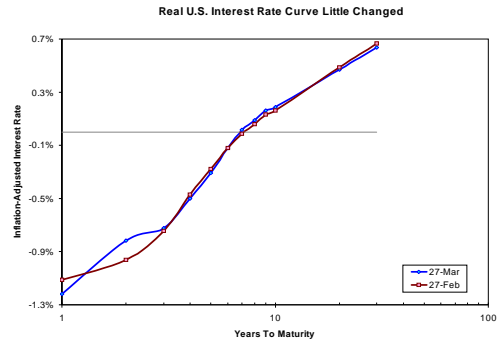
Key Market Indications

We had two tepid auctions in one week and were unable to produce a selloff in Treasuries. All higher yields do now is attract capital inflows from lower-yielding markets elsewhere. Moreover, the regulatory constraints forcing banks into holding sovereign debt as opposed to investment-grade corporate debt are such that any selloff finds a natural buyer. It will take either a drastic change in monetary policy or an unexpected irruption of inflation to the secular bull market in Treasuries.

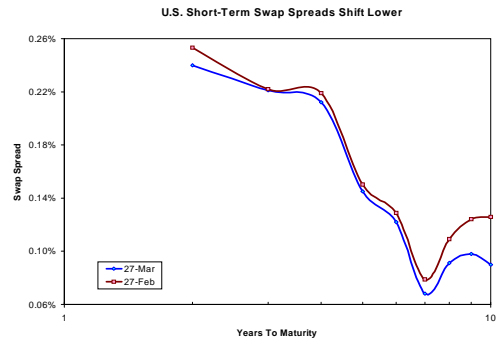
This market continues to remain uninteresting. I guess we can add manufactured crises to the things we do not make in the U.S. anymore.



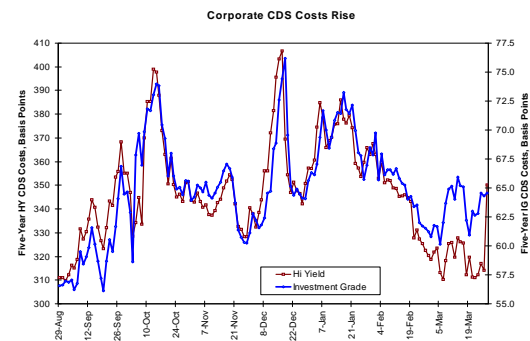
With the exception of an uptick at two years, the pseudo-real yield curve changed little over the past month. Negative short-term implied real rates have put a floor under gold prices once again.



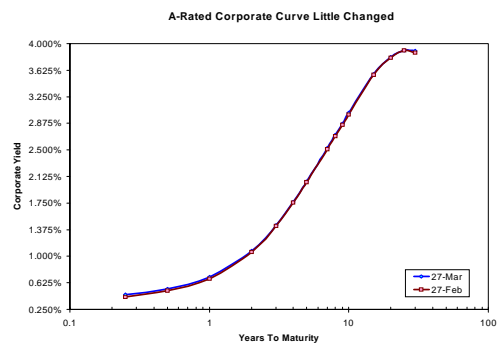
Swap spreads, which rise when floating-rate borrowers want to fix their payments, remain strongly inverted as floating-rate payors are willing to stay floating on the long end but are willing to pay to lock in ultralow short-term rates. If we add lower short-term rates to the mix, we see a downward shift in swap spreads, including those at the short end of the yield curve. This is bullish for both corporate bonds and for equities.



Both investment-grade and high-yield CDS costs rose during the course of the week with the jump in high-yield concentrated on Friday and coinciding with a break in crude oil prices. Until a definitive trend develops, this action simply should be considered resistance to writing credit protection at the previous week's low levels.



The A-rated yield curve has been unchanged over the past month and should continue to remain less volatile than the UST yield curve. Until this yield curve starts steepening bearishly, it will not present a threat to equity gains.



Market Structure

The main Bloomberg index and the Grain, Natural Gas and Petroleum indices are in structural downtrends while Industrial Metals moved into an uptrend. Within financials, the S&P 500 reversed into a structural downtrend.

	N-Day Speed	Market Structure	Trend Oscillator	HLC Volatility	Daily Trend Rate Mar. 30 - Apr. 3
B Berg	29	Trending	-0.086	12.3%	-0.44%
B Berg Grain	28	Trending	-0.009	15.5%	-0.07%
B Berg Ind. Mett	29	Trending	0.075	15.6%	0.17%
B Berg Pre. Mett	29	Trending	0.154	14.1%	
B Berg Softs	8	Sideways	-0.089	18.7%	
B Berg Nat. Gas	21	Trending	-0.054	73.9%	-1.02%
B Berg Petroleum	29	Trending	-0.110	30.0%	-1.11%
B Berg Livestock	26	Trending	0.049	13.9%	
Dollar Index	8	Sideways	-0.022	19.0%	
S&P 500 Index	29	Trending	-0.153	8.7%	-0.72%
EAFE Index	19	Transitional	0.070	12.0%	
EM Index	29	Trending	-0.143	9.1%	-0.38%
Ten-year UST (price)	29	Trending	0.100	6.9%	0.13%

Performance Measures

Anyone frustrated by the pop in petroleum markets with the Yemen story should consider what the price spike would have been prior to the growth in North American production. It will take more than a few bombs dropped on a frankincense farm to produce a U.S. supply shock at a time of record-high inventories. The more interesting story has been the loss of U.S. grain exports associated with USD strength. If Northern Hemisphere growing conditions cooperate in 2015, we could have a strong carryover and another bear market in grains, an expansion of livestock & poultry production and another reason to perpetuate the ethanol boondoggle.

Commodity Total Returns

	Five-Days	One Month	Six Months	One Year
Bloomberg Index	-0.18%	-3.94%	-16.27%	-26.24%
Grains Sub-Index	-0.51%	-2.35%	8.46%	-26.31%
Corn	1.56%	-0.57%	15.47%	-27.32%
Soybeans	-0.67%	-6.25%	3.86%	-20.85%
Wheat	-4.20%	-1.02%	4.92%	-32.18%
Energy Sub-Index	-0.04%	-7.98%	-40.98%	-46.37%
Petroleum Sub-Index	2.03%	-9.01%	-42.67%	-47.55%
WTI	4.94%	-6.27%	-48.12%	-51.21%
Brent	1.29%	-10.79%	-44.82%	-51.00%
ULSD	0.33%	-10.98%	-32.70%	-39.90%
Gasoline	0.11%	-8.81%	-37.00%	-41.85%
Natural Gas	-5.85%	-4.76%	-39.95%	-46.39%
Precious Metals Sub-Index	1.24%	0.00%	-0.85%	-9.29%
Gold	1.29%	-1.11%	-1.12%	-7.55%
Silver	1.10%	3.09%	-0.50%	-14.84%
Industrial Metals Sub-Index	-0.82%	0.10%	-10.15%	-6.11%
Copper	0.24%	2.83%	-7.80%	-8.81%
Aluminum	-0.85%	-2.07%	-10.45%	-2.74%
Nickel	-6.80%	-5.87%	-19.26%	-16.93%
Zinc	0.81%	0.77%	-9.91%	3.10%
Softs Sub-Index	-2.87%	-7.12%	-21.54%	-34.60%
Coffee	-3.59%	-1.64%	-31.34%	-30.03%
Sugar	-4.34%	-11.91%	-26.05%	-46.14%
Cotton	1.16%	-2.12%	5.43%	-24.78%
Livestock Sub-Index	1.62%	1.18%	-14.71%	-14.64%
Cattle	1.66%	6.60%	-1.08%	12.91%
Hogs	1.56%	-7.49%	-35.05%	-46.01%

The two-way trade in currency markets seen over the past week should continue until the next round of speculation begins on when short-term interest rates will rise in the U.S. This is inevitable even as Janet Yellen is channeling her best Clint Eastwood impersonation and making it clear the Federal Reserve will continue to look for every reason not to do so. Make her day? As other major central banks are not going to cut further, these markets will remain trendless through the second quarter.

Currency Returns

	Five-Days	One Month	Six Months	One Year
Euro	0.63%	-2.74%	-14.16%	-20.75%
Chinese yuan	-0.18%	0.86%	-1.00%	-0.04%
Japanese yen	0.76%	0.42%	-8.08%	-14.23%
British pound	-0.47%	-3.62%	-8.39%	-10.43%
Swiss franc	1.39%	-0.78%	-1.09%	-7.82%
Canadian dollar	-0.45%	-0.75%	-11.46%	-12.51%
Australian dollar	-0.30%	-0.72%	-11.08%	-16.28%
Swedish krona	0.42%	-2.91%	-15.62%	-24.55%
Norwegian krone	0.56%	-3.87%	-19.11%	-24.74%
New Zealand dollar	0.03%	0.05%	-2.50%	-12.73%
Indian rupee	0.08%	-0.93%	-1.43%	-3.36%
Brazilian real	-0.58%	-12.57%	-24.68%	-30.49%
Mexican peso	-1.19%	-1.89%	-11.41%	-14.15%
Chilean peso	1.60%	-0.87%	-3.34%	-11.42%
Colombian peso	0.58%	-2.27%	-20.79%	-23.21%
Bloomberg-JP Morgan Asian dollar index (spot)	0.03%	0.10%	-2.87%	-2.50%

One of the more interesting aspects of this week's sharp selloffs was the yawns they produced not only in main volatility indices such as the VIX and VSTOXX but in sector volatility indices such as Biotech. Equity markets have gotten used to these trapdoor selloffs followed almost immediately by rallies as alternatives remain unappealing.

Equity Total Returns

	Five-Days	One Month	Six Months	One Year
MSCI World Free	-1.56%	-1.29%	3.26%	8.19%
North America	-2.11%	-1.89%	4.16%	12.62%
Latin America	-2.42%	-9.21%	-25.69%	-20.84%
Emerging Market Free	-1.10%	-3.08%	-5.66%	1.06%
EAFE	-0.69%	-0.34%	1.86%	1.84%
Pacific	0.07%	1.98%	5.83%	10.43%
Eurozone	-0.34%	-0.54%	0.49%	-2.65%

Strangely, after a two-week period wherein both CTAs and hedge funds profited despite a large number of reversals, they lost badly this week. This suggests a too-great reliance on long equity positions and short petroleum positions as nothing else was out of character.

CTA/Hedge Fund Returns

	Five-Days	One Month	Six Months	One Year
Newedge CTA	-2.93%	0.54%	18.96%	36.12%
Newedge Trend	-1.80%	0.45%	14.53%	24.92%
Newedge Short-Term	-2.28%	-1.39%	7.30%	11.12%
HFR Global Hedge Fund	-0.46%	0.09%	-0.38%	0.39%
HFR Macro/CTA	-1.67%	0.13%	5.40%	9.85%
HFR Macro:	-2.27%	0.13%	8.11%	10.49%
Systematic Diversified CTA				