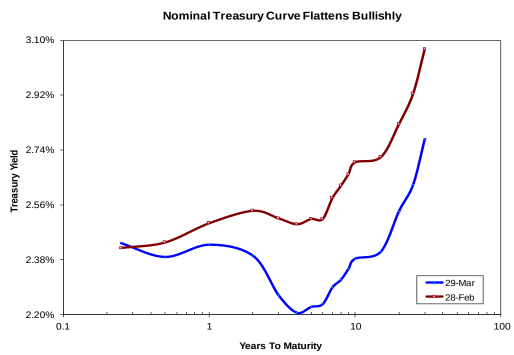
The Macro Environment For Financial Markets

The Federal Reserve cannot protest its virtue against the administration nor can it claim omniscience given its tacit admission of error in 2018. Credibility, once lost, is hard to regain. In the meantime, this monetary retreat has returned U.S. risky assets back to September 2018 levels even though the world ex-U.S. increasingly is struggling. The causal chain now is:

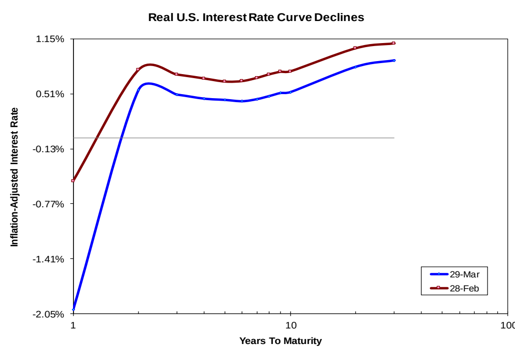
1. The market has started to price in a rate cut, possibly as early as the September meeting;
2. The yield curve is holding its positive slope, but is inverted along various segments;
3. Inflationary expectations are declining;
4. Short-term borrowers are accepting rollover risk rather than term-out borrowing in the bond market;
5. Swap spreads have stopped declining at the long end of the yield curve and are rising at the short end; and
6. CDS costs continue to mirror equity movements.

Key Market Indications

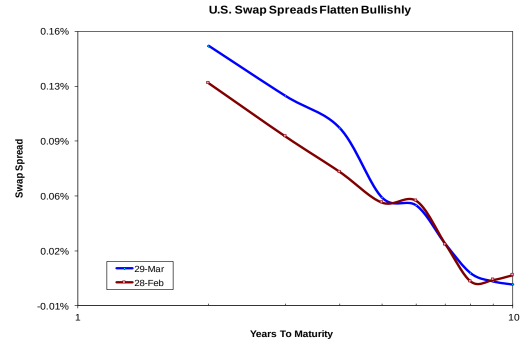
The rally in UST stalled on approach to the 50% retracement of the selloff from July 2016, but the path of least resistance remains for lower yields. The Federal Reserve's hesitance to reverse some of its 2018 tightening will support a bullish flattening of the yield curve.



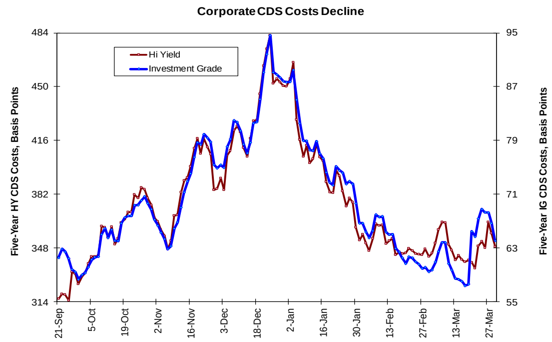
The strong decline in pseudo-real short-term rates continues and is being joined at the long end as breakevens rise in the face of declining nominal yields. This should be bullish for Precious Metals; that it was not is a very bearish signal.



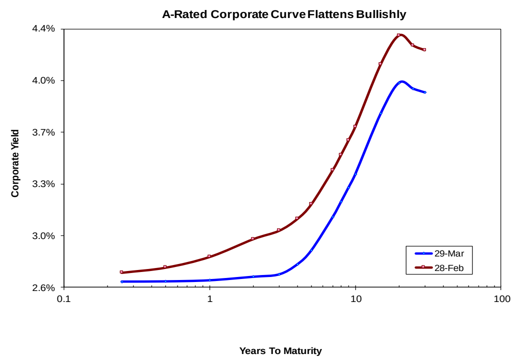
Swap spreads, which rise when floating-rate borrowers want to fix their payments, are rising at the short end as some of last week's consensus about a rate cut is dissipating. They remain quite narrow at the long end of the yield curve.



CDS costs fell as equities rallied. Credit spreads have become quite compressed given the growth slowdown in the U.S. and deteriorating global economic conditions.



Corporate bonds continue to rally alongside Treasuries and as credit spreads remain compressed. The drive into high-grade corporates is leaving this asset class exposed to any downturn; 2018:Q4 showed what happened to liquidity during a selloff.



Market Structure
Only Livestock is in a structural uptrend amongst physical assets; Precious Metals and Natural Gas are in downtrends. Ten-year UST exited their overbought state but remain in an uptrend while all of the equity indices are in choppy transitional structures.

	N-Day Speed	Market Structure	Trend Oscillator	HLC Volatility	Daily Trend Rate Apr. 1 - 5
BBerg	19	Transitional	-0.059	7.2%	
BBerg Grain	14	Transitional	-0.184	12.2%	
BBerg Ind. Metl	13	Transitional	0.083	13.7%	
BBerg Pre. Metl	29	Trending	-0.173	8.0%	-0.09%
BBerg Softs	12	Transitional	-0.052	12.1%	
BBerg Nat. Gas	29	Trending	-0.240	15.5%	-0.54%
BBerg Petroleum	16	Transitional	0.032	18.4%	
BBerg Livestock	29	Trending	0.218	13.3%	0.06%
Dollar Index	16	Transitional	0.121	4.7%	
S&P 500 Index	17	Transitional	0.098	9.7%	
EAFE Index	17	Transitional	-0.005	8.2%	
EM Index	17	Transitional	0.052	8.8%	
Ten-year UST (price)	29	Trending	0.344	4.3%	0.20%

Performance Measures

Grains continue to do quite poorly; the last thing this complex needed was a trade war. The Petroleum markets continue to advance steadily, while Natural Gas remains weak at winter's end. The economically sensitive Industrial Metals continue to react to every stimulus story out of China while Precious Metals declined in the face of lower implied short-term real interest rates; this is a bearish development.

Commodity Total Returns

	Five-Days	One Month	Six Months	One Year
Bloomberg Index	-0.77%	0.34%	-5.00%	-5.25%
Grains Sub-Index	-3.47%	-2.81%	-6.46%	-16.86%
Corn	-5.71%	-4.24%	-6.30%	-17.81%
Soybeans	-2.11%	-2.81%	-0.31%	-19.91%
Wheat	-1.72%	0.30%	-11.36%	-8.69%
Energy Sub-Index	0.03%	1.79%	-16.22%	-0.55%
Petroleum Sub-Index	1.18%	4.61%	-20.18%	-2.85%
WTI	1.91%	7.23%	-20.87%	-4.87%
Brent	1.13%	3.81%	-20.30%	1.13%
ULSD	0.28%	-1.01%	-16.17%	0.87%
Gasoline	-0.36%	8.16%	-22.27%	-9.93%
Natural Gas	-3.76%	-6.84%	-10.54%	-1.30%
Precious Metals Sub-Index	-1.58%	-0.46%	7.47%	-4.04%
Gold	-1.49%	-0.37%	8.60%	-2.84%
Silver	-1.88%	-0.77%	3.84%	-7.89%
Industrial Metals Sub-Index	2.27%	0.81%	2.86%	-3.10%
Copper	3.34%	0.32%	5.68%	-3.56%
Aluminum	0.43%	-0.54%	-9.08%	-2.54%
Nickel	-0.06%	-1.60%	3.88%	-2.54%
Zinc	4.24%	5.78%	14.17%	-4.37%
Softs Sub-Index	0.40%	-0.72%	1.15%	-13.16%
Coffee	0.69%	-5.51%	-12.10%	-27.96%
Sugar	-0.27%	-0.53%	10.28%	-4.77%
Cotton	1.39%	5.29%	-1.08%	-4.01%
Livestock Sub-Index	-5.16%	6.19%	4.35%	14.37%
Cattle	-3.60%	-1.63%	4.26%	17.22%
Hogs	-7.40%	22.59%	0.94%	6.54%

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	-0.74%	-1.35%	-3.11%	-8.80%
Chinese yuan	0.09%	-0.27%	2.33%	-6.29%
Japanese yen	-0.85%	0.48%	2.77%	-4.00%
British pound	-1.32%	-1.72%	-0.05%	-7.01%
Swiss franc	-0.16%	0.30%	-1.12%	-3.90%
Canadian dollar	0.60%	-1.33%	-4.01%	-3.48%
Australian dollar	0.18%	0.03%	-1.77%	-7.58%
Swedish krona	-0.13%	-0.57%	-3.72%	-10.01%
Norwegian krone	-0.78%	-0.75%	-5.52%	-9.10%
New Zealand dollar	-1.09%	-0.04%	2.84%	-5.94%
Indian rupee	-0.25%	2.30%	5.43%	-5.75%
Brazilian real	-0.36%	-4.18%	2.50%	-15.67%
Mexican peso	-1.73%	-0.75%	-3.62%	-6.39%
Chilean peso	0.04%	-3.69%	-3.39%	-11.03%
Colombian peso	-1.88%	-3.32%	-5.96%	-12.27%
Bloomberg-JP Morgan Asian dollar index (spot)	-0.08%	-0.20%	1.36%	-5.01%

Both the U.S. and the Eurozone gained on the back of more stimulative monetary policies, but these markets are discounting the same development twice. The decline in the EM index remains a warning sign of limited upside.

Equity Total Returns

	Five-Days	One Month	Six Months	One Year
MSCI World Free	0.77%	0.87%	-2.54%	4.61%
North America	1.19%	1.07%	-2.05%	9.18%
Latin America	-0.93%	-4.65%	6.06%	-7.03%
Emerging Market Free	-0.06%	0.80%	1.97%	-7.06%
EAFE	-0.04%	0.48%	-3.48%	-3.22%
Pacific	-0.78%	0.74%	-4.24%	-3.58%
Eurozone	0.78%	-0.46%	-4.57%	-6.98%

To repeat verbatim, 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	1.28%	5.22%	-2.57%	-1.44%
SocGen Trend	0.83%	3.12%	-0.90%	-1.03%
SocGen Short-Term	0.58%	1.09%	-1.96%	-2.00%
HFR Global Hedge Fund	-0.07%	0.03%	-2.91%	-2.98%
HFR Macro/CTA	-0.31%	1.32%	-1.95%	-1.60%
HFR Macro: Sytematic Diversified CTA	0.05%	2.20%	-3.16%	-2.83%