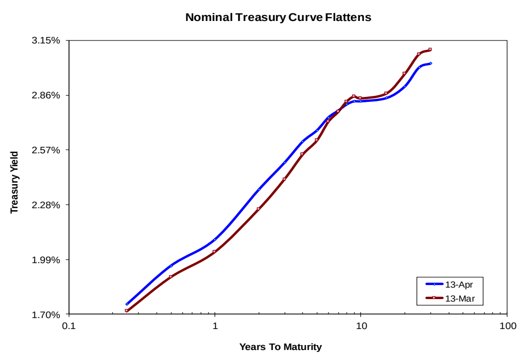
The Macro Environment For Financial Markets

The primary role of any market analyst must be to distill signal from noise. This has become increasingly difficult as the noise level continues to rise. The primary signals of higher short-term interest rates, shrinking monetary accommodation and both growth and earnings at good-as-they-get levels continue to argue for a defensive but not bearish stance. Oh, and lest we forget, rising noise levels increase the risk to investors, and that constitutes a negative fundamental all by itself. The causal chain now is:

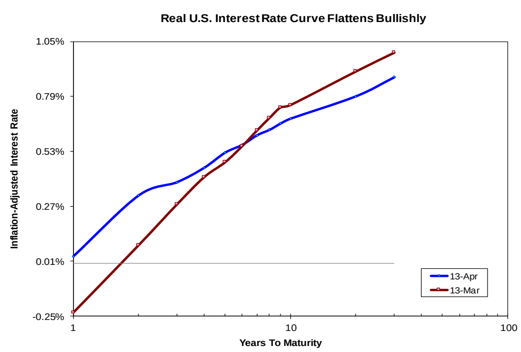
1. The market is pricing in June and September 2018 rate hikes;
2. Inflationary expectations reversed higher;
3. The yield curve has returned to its flattening trend;
4. Short-term borrowers are accepting rollover risk rather than term-out borrowing in the bond market;
5. Swap spreads continue to invert bullishly; and
6. CDS costs continue to reflect equity market fluctuations more than credit market conditions.

Key Market Indications

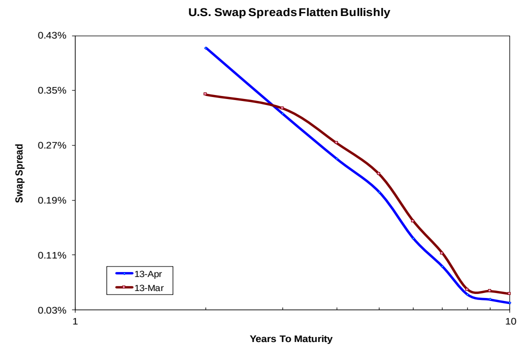
It is somewhat unusual to see TIPS breakevens rise when the yield curve is flattening and nominal rates are remaining within their trading range. One of these markets should correct, and the betting here is a flood of money into TIPS is responsible for the rise in breakevens and that this is the market poised to reverse.



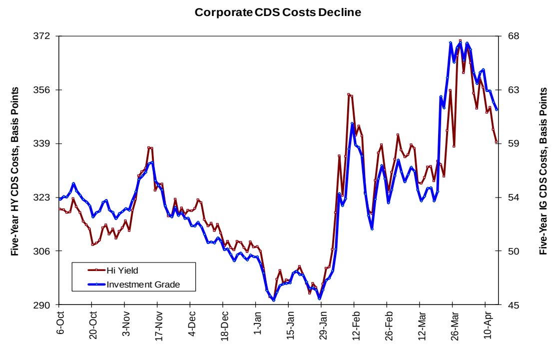
The pseudo-real yield curve shifted higher at the short end of the yield curve but declined at the long end. This bullish flattening will support risky assets and should start to be a negative for gold.



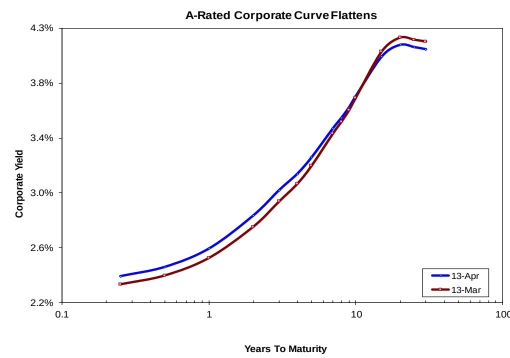
Swap spreads, which rise when floating-rate borrowers want to fix their payments, inverted bullishly as traders recognize higher short-term rates do not necessarily lead to higher long-term rates..



CDS costs continue to reflect movements in equities as correlation trades between stock options and CDS dominate individual issues' credit concerns. The inverse relationship returned this week after last week's refusal of CDS costs to rise in a falling equities environment.



The A-rated corporate yield curve continues to flatten. Rising LIBOR has not posed a threat to this market yet but must be considered a negative given how it affects carrying costs.



Market Structure

Only Softs and Natural Gas remain within structural downtrends within physical markets. Within financial markets, the dollar index reversed into a downtrend, ten-year UST exited their uptrend and the EAFE entered an uptrend while the S&P 500 remains within its downtrend.

	N-Day Speed	Market Structure	Trend Oscillator	HLC Volatility	Daily Trend Rate Apr. 16 - 20
BBerg	27	Trending	0.232	7.8%	0.04%
BBerg Grain	22	Trending	0.086	16.4%	
BBerg Ind. Metl	29	Trending	0.125	15.4%	0.19%
BBerg Pre. Metl	26	Trending	0.097	10.2%	0.05%
BBerg Softs	29	Trending	-0.197	11.9%	-0.06%
BBerg Nat. Gas	29	Trending	-0.004	18.5%	-0.08%
BBerg Petroleum	29	Trending	0.306	18.5%	0.51%
BBerg Livestock	8	Sideways	0.084	21.7%	
Dollar Index	25	Trending	-0.017	5.3%	-0.11%
S&P 500 Index	29	Trending	-0.054	16.9%	-0.11%
EAFE Index	27	Trending	0.094	9.5%	0.12%
EM Index	7	Sideways	0.002	9.7%	
Ten-year UST (price)	29	Trending	-0.001	4.3%	

Performance Measures

Aluminum returned 12.8% on the week, which goes to show you just how damaging talk of tariffs can be. The Petroleum subindex rallied on rising Middle East tensions and the inevitable reductions in inventories resulting from last winter's flatter forward curves in crude oil. The net result is the main Bloomberg index, whose recent declines were cited as prima facie evidence of a global growth slowdown, gained more than 2.7% on the week. None of this has any implications for either future growth or inflation.

Commodity Total Returns

	Five-Days	One Month	Six Months	One Year
Bloomberg Index	2.72%	2.33%	4.56%	4.73%
Grains Sub-Index	0.35%	0.78%	4.03%	-3.32%
Corn	-0.59%	-1.30%	4.04%	-7.87%
Soybeans	2.01%	0.58%	3.65%	6.12%
Wheat	0.23%	1.30%	2.13%	-7.57%
Energy Sub-Index	5.78%	6.19%	13.72%	8.88%
Petroleum Sub-Index	7.61%	8.35%	25.25%	25.60%
WTI	8.48%	7.98%	30.61%	23.91%
Brent	7.91%	9.55%	29.10%	30.13%
ULSD	7.19%	9.57%	17.78%	26.55%
Gasoline	5.81%	5.78%	15.64%	18.17%
Natural Gas	0.60%	0.14%	-16.13%	-29.87%
Precious Metals Sub-Index	1.12%	2.42%	1.15%	-0.21%
Gold	0.92%	2.41%	3.00%	3.79%
Silver	1.80%	2.47%	-4.46%	-11.10%
Industrial Metals Sub-Index	3.62%	1.87%	1.61%	21.64%
Copper	0.52%	-0.97%	-5.65%	17.42%
Aluminum	12.81%	10.47%	7.17%	18.51%
Nickel	5.07%	2.33%	17.26%	41.64%
Zinc	-3.59%	-4.26%	-1.57%	20.55%
Softs Sub-Index	-0.31%	-2.44%	-6.15%	-18.70%
Coffee	0.08%	-0.32%	-8.42%	-22.70%
Sugar	-1.59%	-3.90%	-13.40%	-29.21%
Cotton	1.50%	1.08%	20.91%	13.48%
Livestock Sub-Index	3.04%	-5.17%	-8.64%	-4.60%
Cattle	1.33%	-7.12%	-9.85%	-9.15%
Hogs	6.01%	-1.73%	-8.06%	1.93%

The safe-haven JPY and CHF retreated once again, as did the SEK, INR and BRL. The USD declined against all other currencies, which is odd considering how the Federal Reserve keeps telling everyone they are on course to keep raising rates and none of the other major central banks seem willing to do so.

Currency Returns

	Five-Days	One Month	Six Months	One Year
Euro	0.41%	-0.48%	4.32%	16.19%
Chinese yuan	0.45%	0.74%	4.85%	9.80%
Japanese yen	-0.39%	-0.72%	4.16%	1.62%
British pound	1.04%	1.98%	7.17%	13.88%
Swiss franc	-0.32%	-1.88%	1.28%	4.55%
Canadian dollar	1.38%	2.84%	-1.11%	5.72%
Australian dollar	1.04%	-1.22%	-1.56%	2.59%
Swedish krona	-0.97%	-3.03%	-4.33%	6.72%
Norwegian krone	0.71%	-0.51%	1.44%	10.42%
New Zealand dollar	1.40%	0.55%	2.56%	5.24%
Indian rupee	-0.37%	-0.49%	-0.44%	-1.23%
Brazilian real	-1.57%	-4.72%	-8.09%	-8.14%
Mexican peso	1.36%	3.11%	4.80%	2.97%
Chilean peso	1.77%	1.35%	4.89%	9.20%
Colombian peso	2.97%	5.19%	8.20%	5.79%
Bloomberg-JP Morgan Asian dollar index (spot)	0.23%	0.19%	3.26%	5.94%

Did we reach a point where "less stupid" constitutes bullish news? Yes. However, none of this means we are out of the woods, just that we have reduced some of the risk of ruin created by "more stupid."

Equity Total Returns

	Five-Days	One Month	Six Months	One Year
MSCI World Free	1.81%	-1.85%	4.04%	16.78%
North America	2.01%	-3.60%	4.69%	15.80%
Latin America	-0.02%	-2.99%	3.77%	19.68%
Emerging Market Free	0.74%	-4.19%	4.77%	24.70%
EAFE	1.49%	0.02%	3.23%	18.32%
Pacific	1.00%	-0.97%	4.60%	17.70%
Eurozone	1.68%	1.04%	2.42%	22.75%

Both CTAs and hedge funds managed gains during a positive week for equities. This is becoming too predictable for asset classes supposed to be diversifiers against equities. One-year returns have turned positive; if that's not worth 1-and-20, what is?

CTA/Hedge Fund Returns

	Five-Days	One Month	Six Months	One Year
Newedge CTA	1.19%	0.21%	1.60%	0.67%
Newedge Trend	0.80%	0.24%	1.23%	0.36%
Newedge Short-Term	0.17%	-1.05%	0.37%	-0.62%
HFR Global Hedge Fund	0.69%	-1.18%	0.60%	3.77%
HFR Macro/CTA	1.21%	-0.09%	0.81%	1.88%
HFR Macro: Sytematic Diversified CTA	2.29%	0.97%	3.45%	3.84%