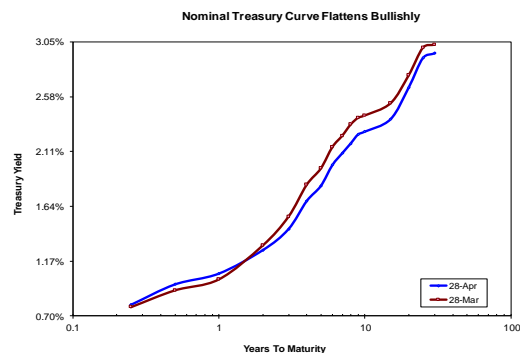


The euro dodged another bullet, which seems to be the only thing it has to be proud of in its history. That eliminated a negative and when combined with Mario Draghi's reluctance to end Eurozone QE, put a bid under global equities. The long-awaited U.S. tax reform plan is the sort of thing that used to get economics students kept after class until they decided whether they wanted to do their homework or not. The causal chain is:

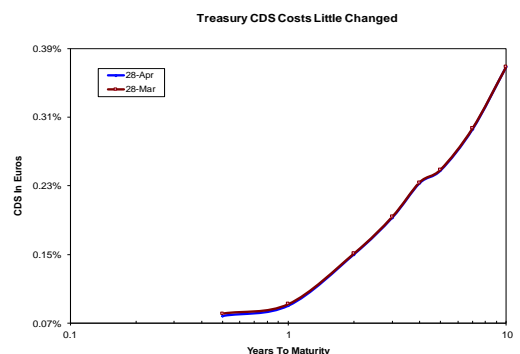
1. The market still is pricing in higher short-term rates in 2017, but the conviction level is declining;
2. Inflationary expectations have stopped declining;
3. The U.S. yield curve continues in its secular flattening trend;
4. Short-term borrowers are close to terming out short-term debt into the bond market;
5. Swap spreads are ending their increase; and
6. CDS costs remain consistent with a bull market in risky assets.

### Key Market Indications

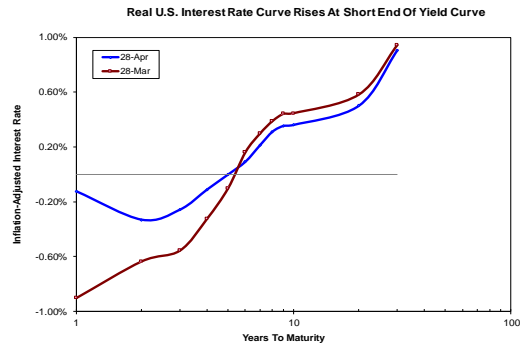
The flattening of the yield curve, which had been driven by higher short-term rates, is being driven now by lower long-term rates. As long as central banks own the long end and cannot liquidate their portfolios, long-term rates will not rise until and unless fiscal policy turns strongly stimulative. You would need to see a credible tax plan for that to happen.



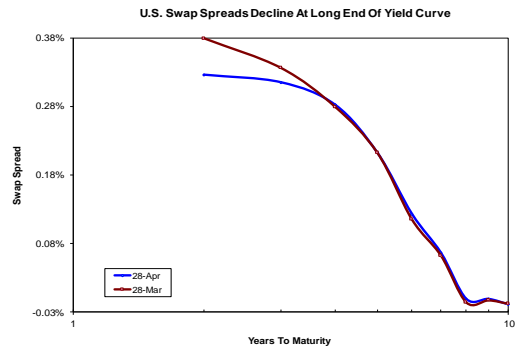
CDS costs on UST changed little as Congress decided to keep the government operating for the time being. This market does not scare much anymore.



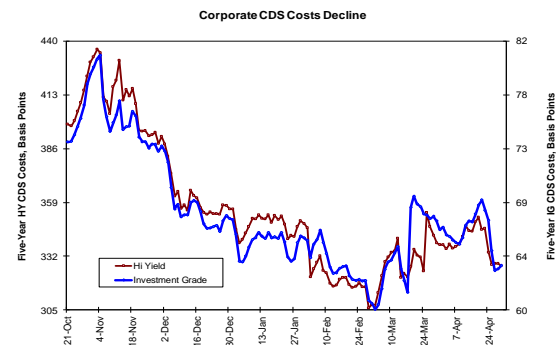
The pseudo-real yield curve shifted higher at the short end of the yield curve. This augmented the downward movement in gold as Eurozone political risk dissipated. Small declines at the long end of the yield curve helped capital markets.



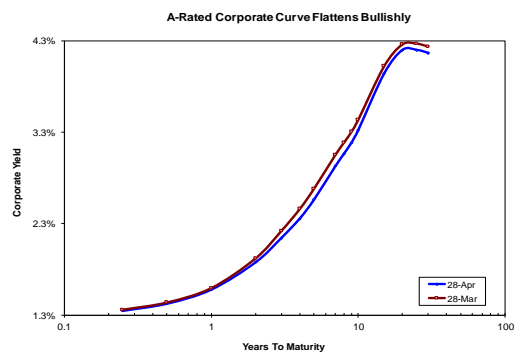
Swap spreads, which rise when floating-rate borrowers want to fix their payments, shifted lower at the short end of the yield curve but remained largely unchanged elsewhere. It has been difficult to win a bet on higher interest rates since mid-December.



CDS costs declined, continuing the pattern of credit being the inverse of equities. The prolonged trading range in the energy markets and the lack of higher short-term rates have removed much of this market's potential stress.



The A-rated corporate yield curve flattened bullishly and in parallel to the UST curve. This shift will continue to stabilize other risky assets.



## Market Structure

Only Petroleum and Livestock are in defined trends within the physical commodities. The dollar index remains in a downtrend and all of the equity indices joined ten-year UST remain in uptrends amongst the financials.

	N-Day Speed	Market Structure	Trend Oscillator	HLC Volatility	Daily Trend Rate May 1 - 5
BBERG	4	Sideways	0.017	7.1%	
BBERG Grain	17	Transitional	-0.031	12.4%	
BBERG Ind. Metl	7	Sideways	0.016	12.9%	
BBERG Pre. Metl	29	Trending	-0.102	8.8%	
BBERG Softs	14	Transitional	-0.078	18.5%	
BBERG Nat. Gas	14	Transitional	0.034	20.5%	
BBERG Petroleum	29	Trending	-0.179	18.2%	-0.08%
BBERG Livestock	29	Trending	0.518	11.5%	0.15%
Dollar Index	22	Trending	-0.178	5.8%	-0.04%
S&P 500 Index	28	Trending	0.145	7.8%	0.12%
EAFE Index	27	Trending	0.274	7.4%	0.16%
EM Index	25	Trending	0.182	6.7%	0.08%
Ten-year UST (price)	29	Trending	0.082	4.8%	0.10%

## Performance Measures

Natural Gas rose while the Petroleum subindex fell. The most impressive move was in the previously weak Livestock subindex. Precious Metals declined as part of a risk-off move.

	Five-Days	One Month	Six Months	One Year
<b>Bloomberg Index</b>	0.15%	-1.51%	-0.30%	-1.32%
<b>Grains Sub-Index</b>	1.00%	-0.80%	-3.90%	-15.33%
Corn	0.77%	-1.29%	-1.30%	-15.43%
Soybeans	-0.45%	-0.04%	-6.55%	-8.85%
Wheat	2.69%	-1.59%	-5.38%	-25.11%
<b>Energy Sub-Index</b>	-0.72%	-2.99%	-1.23%	-2.87%
<b>Petroleum Sub-Index</b>	-1.96%	-4.39%	-2.29%	-6.11%
WTI	-0.68%	-3.20%	-1.63%	-7.75%
Brent	-0.73%	-3.17%	1.29%	-3.25%
ULSD	-3.19%	-4.60%	-4.13%	-1.36%
Gasoline	-5.42%	-8.59%	-8.63%	-12.34%
Natural Gas	2.55%	0.64%	1.20%	8.34%
<b>Precious Metals Sub-Index</b>	-2.17%	-0.56%	-3.53%	-3.35%
Gold	-1.60%	1.43%	-2.04%	-2.80%
Silver	-3.75%	-5.77%	-7.34%	-4.92%
<b>Industrial Metals Sub-Index</b>	0.99%	-3.40%	8.48%	13.70%
Copper	2.23%	-2.21%	15.53%	12.10%
Aluminum	-1.16%	-2.89%	9.17%	11.34%
Nickel	1.11%	-5.85%	-9.87%	-1.55%
Zinc	1.51%	-5.53%	5.62%	33.40%
<b>Softs Sub-Index</b>	-0.96%	-5.20%	-19.49%	4.80%
Coffee	0.39%	-5.73%	-21.55%	0.34%
Sugar	-2.29%	-3.71%	-23.58%	-3.94%
Cotton	-0.56%	0.04%	10.89%	18.37%
<b>Livestock Sub-Index</b>	7.02%	7.42%	23.20%	3.97%
Cattle	6.29%	11.93%	28.19%	20.51%
Hogs	8.32%	0.27%	15.19%	-16.54%

The EUR rallied after the French election and helped pull the other European currencies higher and, in a continuation of a risk-on pattern, push the JPY lower. The USD gained against the Latin currencies and against the commodity-linked CAD and AUD.

	Five-Days	One Month	Six Months	One Year
<b>Euro</b>	1.56%	0.75%	-0.82%	-4.03%
<b>Chinese yuan</b>	-0.11%	-0.20%	-1.66%	-6.06%
<b>Japanese yen</b>	-2.15%	-0.31%	-6.05%	-3.03%
<b>British pound</b>	1.05%	4.02%	6.29%	-11.35%
<b>Swiss franc</b>	0.17%	-0.21%	-0.65%	-2.81%
<b>Canadian dollar</b>	-1.14%	-1.98%	-1.87%	-8.04%
<b>Australian dollar</b>	-0.70%	-1.90%	-1.46%	-1.80%
<b>Swedish krona</b>	1.60%	-0.25%	1.78%	-8.86%
<b>Norwegian krone</b>	0.99%	-0.71%	-3.73%	-5.21%
<b>New Zealand dollar</b>	-2.22%	-2.10%	-4.15%	-1.38%
<b>Indian rupee</b>	0.57%	1.24%	3.94%	3.54%
<b>Brazilian real</b>	-0.93%	-1.12%	0.75%	9.83%
<b>Mexican peso</b>	-0.05%	1.11%	0.87%	-8.23%
<b>Chilean peso</b>	-2.23%	-0.20%	-2.72%	-1.01%
<b>Colombian peso</b>	-2.20%	-1.18%	1.54%	-2.29%
<b>Bloomberg JP Morgan Asian dollar index (spot)</b>	0.05%	-0.04%	-0.34%	-2.86%

Equities have an underlying strength and continue to benefit whenever sovereign yields decline or when political risks dissipate. No one with long-dated liabilities can meet the obligations in any other asset class.

	Five-Days	One Month	Six Months	One Year
<b>MSCI WorldFree</b>	2.03%	1.53%	12.90%	15.30%
<b>North America</b>	1.40%	1.11%	12.84%	16.89%
<b>Latin America</b>	0.18%	-1.01%	1.79%	17.17%
<b>Emerging Market Free</b>	1.74%	1.01%	9.22%	19.04%
<b>EAFE</b>	3.12%	1.85%	11.75%	11.53%
<b>Pacific</b>	0.85%	0.85%	6.23%	12.83%
<b>Eurozone</b>	5.62%	4.11%	16.72%	16.33%

Both CTAs and hedge funds managed gains this week, continuing the pattern of gaining during equity rallies. A little negative correlation would be useful for things described as "alternative" assets.

	Five-Days	One Month	Six Months	One Year
<b>Newsedge CTA</b>	0.42%	-0.22%	-3.30%	-7.07%
<b>Newsedge Trend</b>	0.70%	0.49%	-1.91%	-4.34%
<b>Newsedge Short-Term</b>	0.18%	-0.61%	-5.12%	-10.38%
<b>HF Global Hedge Fund</b>	0.47%	0.78%	3.71%	5.96%
<b>HF Macro/CTA</b>	0.34%	-0.07%	-1.43%	-3.94%
<b>HF Macro:</b>	0.26%	0.11%	-1.78%	-4.42%
<b>Systematic Diversified CTA</b>				