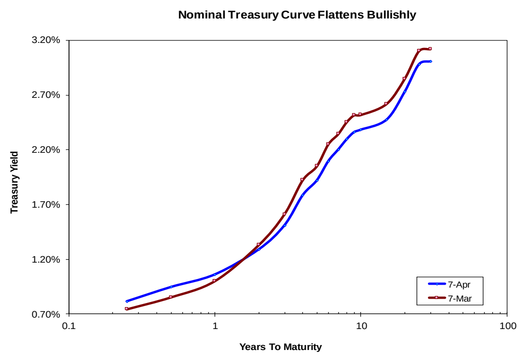
The Macro Environment For Financial Markets

The short-term reaction to the FOMC's minutes was telling: Equities sold off and bonds rallied on the apparent belief a reduction in the balance sheet would have an economic impact. Nothing has changed the overall picture of a high-liquidity, low-rate environment with sufficient growth and a downturn in inflationary risks. That is bullish and, apparently, very hard for many to accept. The causal chain is:

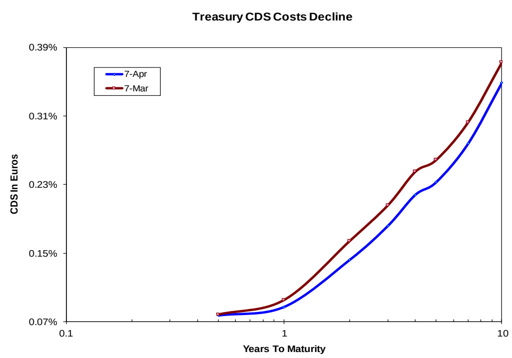
1. The market still is pricing in higher short-term rates in 2017;
2. Inflationary expectations are declining;
3. The U.S. yield curve continues in its secular flattening trend;
4. Short-term borrowers have stopped terming out short-term debt into the bond market;
5. Swap spreads are rising past one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

Key Market Indications

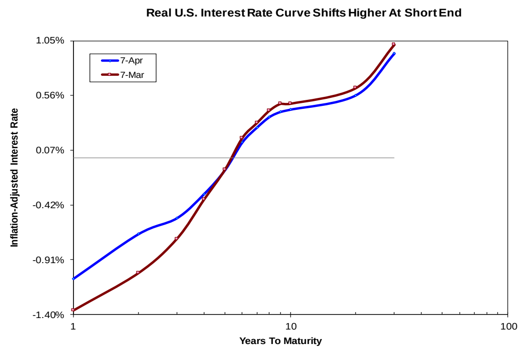
The flattening of the yield curve via relatively higher short-term rates continues. The threat of a UST selloff in the face of excessive fiscal stimulus will prevent the federal government from going overboard on that stimulus. It is doubtful tax cuts will arrive at the pace expected earlier, and this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



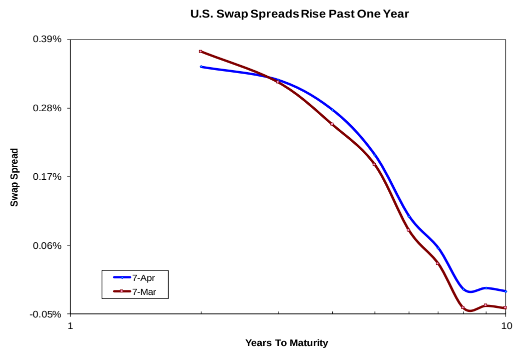
CDS costs on UST have moved very slightly lower. The idle chatter about a debt ceiling impasse is just that for now; it is doubtful Congress would want to look so incompetent twice in two months.



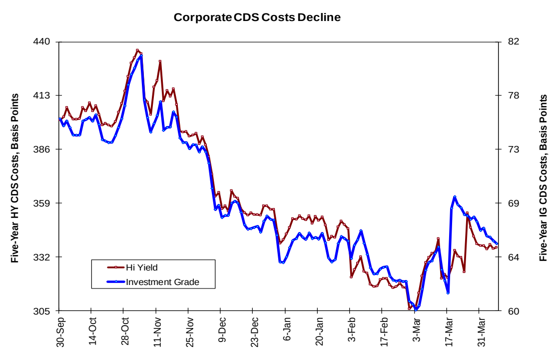
The pseudo-real yield curve rose inside of five years. This has started to cap the gains made in precious metals. The small increase at the long end of the yield curve did not affect risky assets.



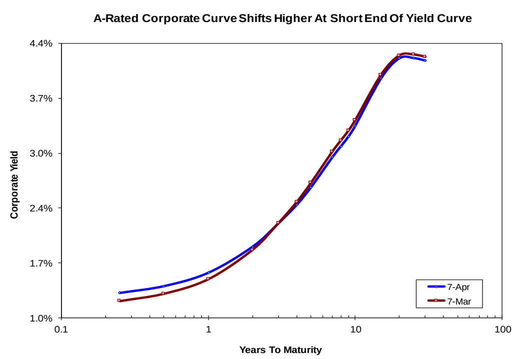
Swap spreads, which rise when floating-rate borrowers want to fix their payments, shifted higher past one year. The small increases are consistent with moderating expectations for rate hikes going forward in 2017.



CDS costs resumed their decline. As noted over the past two weeks, moves here are not so much credit events as correlation trades. Credit has become the inverse of equities.



The A-rated corporate yield curve sold off slightly at the short end of the yield curve, but this was very minor. So long as credit spreads remain narrow and UST yields are moving lower, the bull market in corporate debt remains intact.



Market Structure

Only Softs remain in a structural downtrend in the physical markets; Precious Metals and Natural Gas are in uptrends. The dollar index reversed into an uptrend and the EAFE joined ten-year UST in uptrends amongst financial markets.

	N-Day Speed	Market Structure	Trend Oscillator	HLC Volatility	Daily Trend Rate Apr. 10 - 14
BBerg	13	Transitional	0.117	7.2%	
BBerg Grain	6	Sideways	-0.051	12.4%	
BBerg Ind. Metl	27	Trending	0.013	15.3%	
BBerg Pre. Metl	27	Trending	0.199	9.5%	0.11%
BBerg Softs	29	Trending	-0.251	14.2%	-0.23%
BBerg Nat. Gas	29	Trending	0.214	24.0%	0.40%
BBerg Petroleum	29	Trending	0.192	19.6%	
BBerg Livestock	29	Trending	0.022	9.9%	
Dollar Index	29	Trending	0.076	5.5%	0.10%
S&P 500 Index	9	Sideways	-0.021	7.8%	
EAFE Index	29	Trending	0.005	8.4%	0.08%
EM Index	10	Sideways	-0.071	6.5%	
Ten-year UST (price)	29	Trending	0.121	4.6%	0.10%

Performance Measures

The entire Energy complex moved strongly higher, once again on the same vain hope OPEC will enforce production quotas. This kept the main Bloomberg index bid in the face of losses in Grains, Softs, Livestock and Industrial Metals.

Commodity Total Returns

	Five-Days	One Month	Six Months	One Year
Bloomberg Index	0.58%	1.92%	-0.80%	9.06%
Grains Sub-Index	-0.77%	-3.79%	-1.55%	-8.70%
Corn	-1.29%	-1.24%	0.37%	-9.26%
Soybeans	-0.41%	-6.35%	-3.86%	1.10%
Wheat	-0.57%	-3.69%	-1.90%	-20.81%
Energy Sub-Index	2.91%	6.96%	-5.94%	14.19%
Petroleum Sub-Index	3.16%	7.25%	-3.68%	13.41%
WTI	3.26%	6.61%	-5.33%	9.83%
Brent	3.25%	7.21%	-3.26%	16.35%
ULSD	3.43%	7.77%	-3.37%	21.75%
Gasoline	2.55%	7.96%	-0.99%	7.45%
Natural Gas	2.23%	6.14%	-11.80%	17.61%
Precious Metals Sub-Index	0.21%	5.20%	-0.03%	4.11%
Gold	0.50%	4.43%	-0.79%	-0.06%
Silver	-0.56%	7.32%	2.02%	15.96%
Industrial Metals Sub-Index	-0.44%	2.29%	14.33%	28.79%
Copper	-0.19%	2.07%	19.63%	24.76%
Aluminum	-0.23%	4.19%	15.17%	26.68%
Nickel	1.52%	2.76%	-3.94%	17.26%
Zinc	-3.20%	-0.92%	14.58%	50.74%
Softs Sub-Index	-0.92%	-5.27%	-16.40%	13.07%
Coffee	0.55%	-0.86%	-11.59%	6.29%
Sugar	0.08%	-7.90%	-27.22%	9.14%
Cotton	-4.99%	-4.90%	6.65%	20.32%
Livestock Sub-Index	-0.03%	0.25%	22.63%	-6.63%
Cattle	0.85%	3.97%	21.85%	0.63%
Hogs	-1.44%	-5.20%	24.15%	-17.11%

The JPY resumed its role as a risk-off currency, but the USD was higher against all other majors and lost grounds against the EM currencies with the prominent exception of the corruption-affected BRL.

Currency Returns

	Five-Days	One Month	Six Months	One Year
Euro	-0.57%	0.24%	-5.45%	-6.92%
Chinese yuan	-0.19%	0.03%	-3.31%	-6.35%
Japanese yen	0.27%	2.60%	-7.30%	-2.59%
British pound	-1.43%	1.40%	-0.51%	-11.99%
Swiss franc	-0.64%	0.42%	-3.13%	-5.28%
Canadian dollar	-0.60%	0.11%	-0.76%	-1.89%
Australian dollar	-1.69%	-1.16%	-1.08%	-0.07%
Swedish krona	-1.13%	-0.68%	-4.93%	-9.97%
Norwegian krone	-0.70%	-2.38%	-6.61%	-3.88%
New Zealand dollar	-0.93%	-0.19%	-3.00%	2.42%
Indian rupee	0.89%	3.72%	3.74%	3.40%
Brazilian real	-0.78%	-0.86%	2.38%	17.24%
Mexican peso	0.31%	4.44%	3.40%	-4.23%
Chilean peso	0.69%	0.54%	2.15%	4.18%
Colombian peso	0.39%	3.25%	2.25%	8.54%
Bloomberg-JP Morgan Asian dollar index (spot)	-0.37%	0.57%	-1.68%	-2.61%

Equities had a glass-half-full week; on one level they retreated but this retreat was in the face of higher expected short-term rates in the U.S. and another escalation of the conflict in Syria. Getting investors to sell has been a difficult task.

Equity Total Returns

	Five-Days	One Month	Six Months	One Year
MSCI World Free	-0.38%	0.27%	8.57%	16.01%
North America	-0.23%	-0.28%	10.31%	18.14%
Latin America	1.45%	2.07%	9.31%	33.67%
Emerging Market Free	0.38%	2.89%	5.97%	22.04%
EAFE	-0.65%	2.14%	6.79%	14.45%
Pacific	-0.71%	0.15%	5.08%	17.35%
Eurozone	-0.80%	2.33%	9.80%	15.86%

While hedge funds made slight gains this week, perhaps on being long the USD and sovereign debt, CTAs struggled once again. It is increasingly difficult to justify any active investment in any market, especially ones with high cost structures.

CTA/Hedge Fund Returns

	Five-Days	One Month	Six Months	One Year
Newedge CTA	-1.00%	-2.25%	-4.25%	-10.63%
Newedge Trend	-0.57%	-0.91%	-2.62%	-7.28%
Newedge Short-Term	-0.45%	0.33%	-6.10%	-10.91%
HFR Global Hedge Fund	0.03%	0.03%	2.78%	6.36%
HFR Macro/CTA	0.08%	-0.48%	-2.18%	-3.90%
HFR Macro: Sytematic Diversified CTA	0.16%	-1.30%	-3.73%	-6.06%