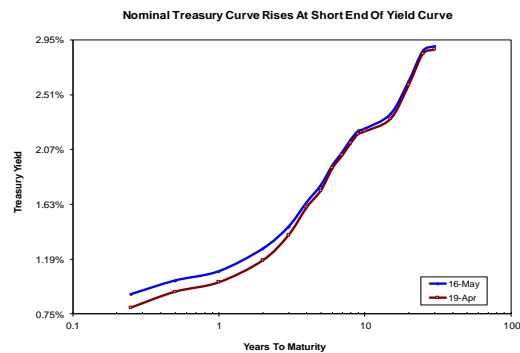


The markets wanted to ignore the Washington mud-slinging, but at some point, it is impossible to do so. I commented last week the likelihood of significant policy actions diminishes daily, and that means we will see fewer mistakes. However, the rest of the world does not need to keep its money in what is looking like a random crisis generator. See Brazil for what political risk can do. The causal chain remains:

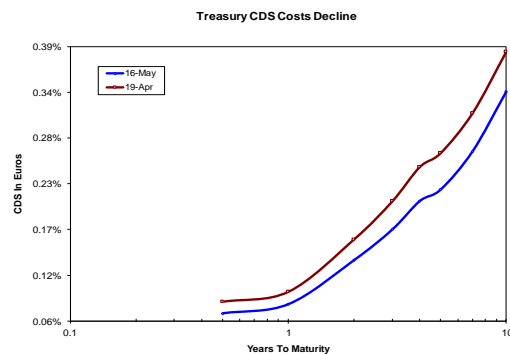
1. The market still is pricing in higher short-term rates in 2017, but the conviction level is declining;
2. Inflationary expectations remain under pressure;
3. The U.S. yield curve continues in its secular flattening trend;
4. Short-term borrowers are close to terming out short-term debt into the bond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

Key Market Indications

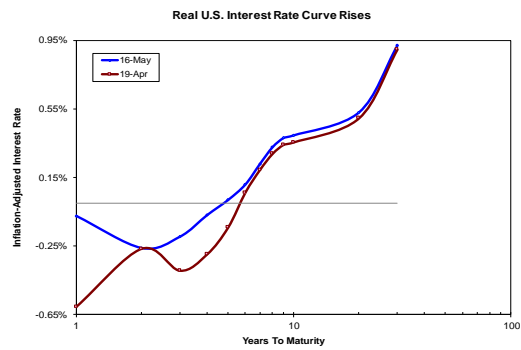
The UST market moved higher at the short end as nothing yet suggests a reversal of the Federal Reserve's stated intentions to raise short-term rates. The demand for long-dated, high-quality bonds remains strong and central bank owners of these bonds are not going to sell them just yet.



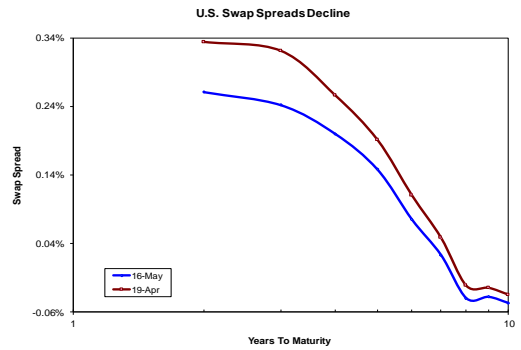
CDS costs on UST declined. While corporate borrowers have to be regarded as well-managed to receive creditor confidence, government borrowers do not labor under such constraints.



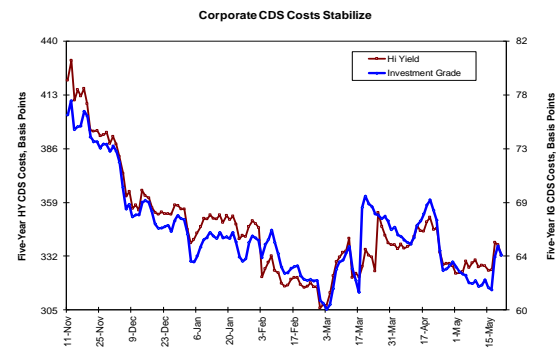
The pseudo-real yield curve shifted higher at the short end of the yield curve. This did not affect precious metals, but that may be an artifact of elevated political risk. Small increases at the long end of the yield curve did not affect capital markets.



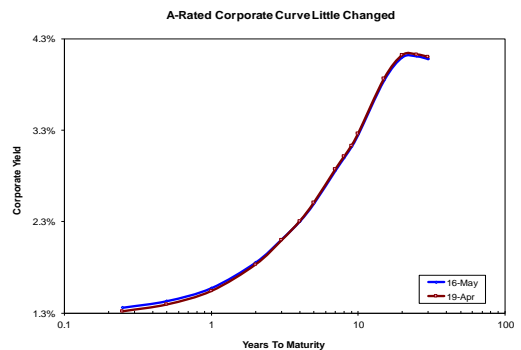
Swap spreads, which rise when floating-rate borrowers want to fix their payments, shifted lower across tenors. This is one more piece of evidence of how the reflation trade has disappeared.



CDS costs continue to stabilize as corporate bond markets continue to price out credit risk. This will end someday, but until it does, this remains a bull market.



The A-rated corporate yield curve changed little. This remains a bull market with limited upside potential.



Market Structure

Natural Gas remains in a structural uptrend amongst the physical commodities, while Precious Metals are the only subindex in a structural downtrend. All of the stock indices and ten-year UST are in structural uptrends, while the dollar index is in a downtrend.

	N-Day Speed	Market Structure	Trend Oscillator	HLC Volatility	Daily Trend Rate May 22 - 26
BBERG	29	Trending	0.066	8.6%	
BBERG Grain	19	Transitional	0.005	13.7%	
BBERG Ind. Metl	16	Transitional	0.098	14.1%	
BBERG Pre. Metl	29	Trending	-0.086	9.4%	-0.38%
BBERG Softs	10	Sideways	0.057	14.5%	
BBERG Nat. Gas	24	Trending	0.047	21.8%	0.14%
BBERG Petroleum	29	Trending	0.079	23.5%	
BBERG Livestock	9	Sideways	0.037	15.8%	
Dollar Index	29	Trending	-0.375	5.8%	-0.04%
S&P 500 Index	29	Trending	0.042	6.4%	0.12%
EAFE Index	29	Trending	0.361	7.3%	0.11%
EM Index	29	Trending	0.199	7.8%	0.08%
Ten-year UST (price)	21	Trending	0.147	4.3%	0.15%

Performance Measures

OPEC cuts are this millennium's answer to Charlie Brown and the football. However, you cannot get in the way of a rally. Generally supportive global economic data helped support Industrial Metals, while Precious Metals received a haven bid.

	Five-Days	One Month	Six Months	One Year
Bloomberg Index	1.49%	1.03%	-0.18%	0.31%
Grains Sub-Index	-0.05%	1.79%	-4.43%	-15.23%
Corn	0.42%	2.47%	0.02%	-14.61%
Soybeans	-1.02%	-0.74%	-10.17%	-12.89%
Wheat	0.60%	3.45%	-3.58%	-21.22%
Energy Sub-Index	2.50%	1.70%	0.35%	-2.22%
Petroleum Sub-Index	5.27%	1.35%	0.13%	-6.36%
WTI	5.21%	1.47%	-1.18%	-9.12%
Brent	5.29%	1.63%	2.18%	-3.63%
ULSD	5.97%	1.53%	-0.12%	-3.34%
Gasoline	4.70%	0.42%	-0.83%	-8.80%
Natural Gas	-4.13%	2.60%	0.51%	14.03%
Precious Metals Sub-Index	2.19%	-3.67%	2.21%	-0.77%
Gold	2.11%	-2.72%	3.00%	-1.09%
Silver	2.42%	-6.30%	-0.11%	-0.25%
Industrial Metals Sub-Index	2.23%	0.88%	0.01%	24.13%
Copper	2.30%	1.26%	0.20%	23.34%
Aluminum	2.77%	0.44%	9.47%	23.26%
Nickel	0.49%	0.09%	-18.29%	8.44%
Zinc	2.56%	1.30%	0.05%	38.42%
Softs Sub-Index	0.67%	-2.11%	-14.01%	2.15%
Coffee	-2.09%	-0.54%	-20.76%	-3.15%
Sugar	5.63%	-0.72%	-16.71%	-6.70%
Cotton	-3.30%	0.22%	6.42%	23.35%
Livestock Sub-Index	0.41%	10.98%	23.64%	6.30%
Cattle	-0.58%	7.46%	25.41%	15.84%
Hogs	2.02%	17.25%	20.34%	-7.24%

Blame it on Rio. Another round of corruption news tanked the BRL. This and a minor downturn in the INR prevented the USD from losing across the board as investors are rethinking both the political risk of the U.S. and its monetary policy. If you do not want to take some money out of the U.S. market now, you may be confronted with the choice at a lower level later.

	Five-Days	One Month	Six Months	One Year
Currency Returns				
Euro	2.52%	4.62%	5.42%	0.03%
Chinese yuan	0.21%	0.04%	0.11%	-4.87%
Japanese yen	1.91%	-2.16%	-0.40%	-1.17%
British pound	1.13%	2.03%	4.34%	-10.78%
Swiss franc	2.88%	2.62%	3.69%	1.83%
Canadian dollar	1.47%	-0.19%	-0.69%	-3.09%
Australian dollar	0.97%	-0.51%	1.22%	3.20%
Swedish krona	1.13%	2.78%	5.61%	-4.26%
Norwegian krone	2.21%	2.45%	2.02%	-0.13%
New Zealand dollar	0.84%	-1.13%	-2.01%	2.67%
Indian rupee	-0.51%	-0.09%	5.46%	4.23%
Brazilian real	-4.05%	-3.12%	2.99%	9.53%
Mexican peso	0.50%	0.59%	9.19%	-1.62%
Chilean peso	0.32%	-2.85%	0.78%	3.97%
Colombian peso	1.15%	-0.54%	9.15%	5.97%
Bloomberg-JP Morgan Asian dollar index (spot)	0.45%	0.66%	2.06%	-0.49%

Brazil highlighted what one bad day can do to months of gains in both its market and the EM index. The Eurozone and the EAFE in general look relatively attractive.

	Five-Days	One Month	Six Months	One Year
Equity Total Returns				
MSCI World Free	0.22%	3.67%	13.17%	19.40%
North America	-0.26%	1.84%	9.96%	19.01%
Latin America	-7.32%	-2.77%	12.97%	25.60%
Emerging Market Free	-0.63%	4.67%	19.04%	30.84%
EAFE	1.02%	6.86%	18.88%	20.03%
Pacific	-0.10%	1.37%	8.87%	17.49%
Eurozone	1.52%	11.07%	28.19%	27.44%

It has become difficult to find new ways of saying professional traders' performance is bad. If you want to proclaim expertise and charge a fee for doing so, you had best provide something in return.

	Five-Days	One Month	Six Months	One Year
CTA/Hedge Fund Returns				
Newedge CTA	-2.35%	-1.52%	-2.93%	-7.46%
Newedge Trend	-1.26%	-0.39%	-0.72%	-4.01%
Newedge Short-Term	-0.08%	-0.28%	-4.52%	-9.82%
HFR Global Hedge Fund	-0.36%	0.34%	3.16%	6.40%
HFR Macro/CTA	-0.81%	-0.51%	-0.65%	-3.06%
HFR Macro: Systematic Diversified CTA	-1.13%	-1.31%	-1.82%	-3.94%