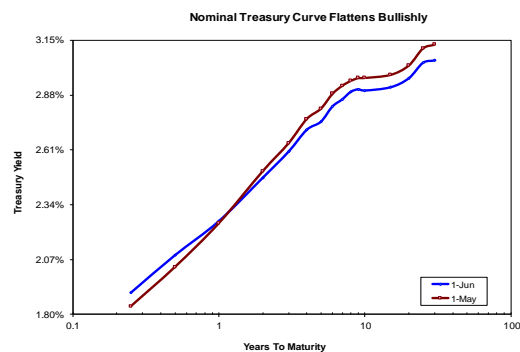


The lack of follow-through from major news events makes trading on news a mug's game. However, so many algorithms are programmed to react to elementized news feeds, and trade they will. The result is a series of opposing one-day wonders. That is noise; the signal remains we are in a low-return, low-rate, low-inflation environment. The causal chain now is:

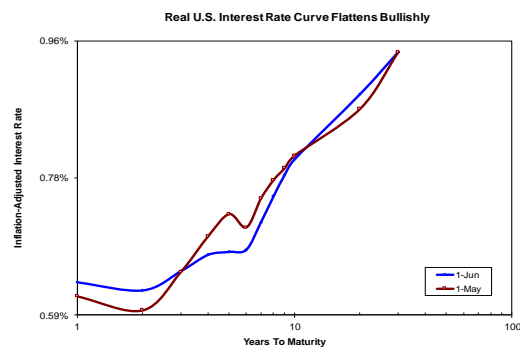
1. The market is pricing in June, September and decreasingly December 2018 rate hikes;
2. Inflationary expectations have stopped rising;
3. The yield curve has resumed in its flattening trend;
4. Short-term borrowers are accepting rollover risk rather than term-out borrowing in the bond market;
5. Swap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

### Key Market Indications

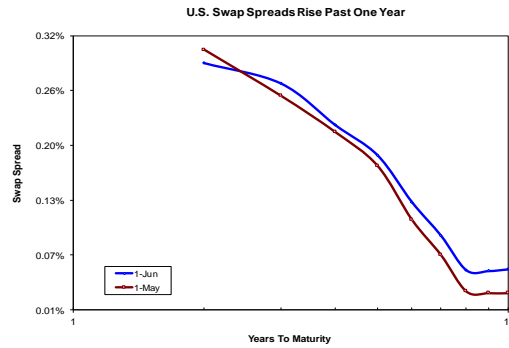
The ten-year UST benefited strongly from the haven bid and from the stubborn refusal of inflation reality to conform to inflation scares. The yield curve continues to flatten as the Federal Reserve persists in claiming its rate-hike plans remain intact.



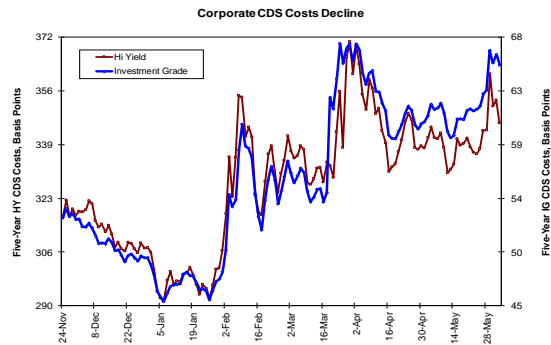
The pseudo-real yield curve continued to shift higher at the short end of the yield curve. This is a major negative fundamental for gold. However, the long end stopped rising, which is a positive for risky financial assets.



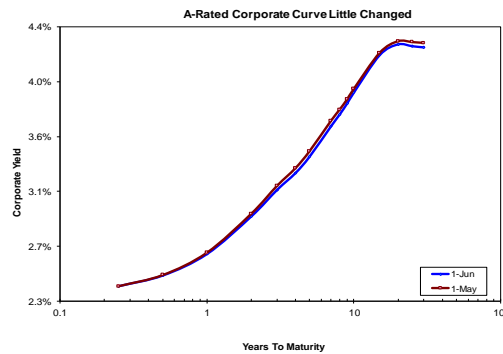
Swap spreads, which rise when floating-rate borrowers want to fix their payments, rose slightly past one year. While the move was minor, it signals a belief rates are unlikely to decline significantly from these levels.



CDS costs declined slightly. This resilience in the face of rising stress for the financial sector speaks to the overall strong balance sheet position of U.S. firms.



The A-rated corporate yield curve has changed little over the past month and is unlikely to resume last year's rally in the face of a trading range in UST and already-compressed credit spreads.



### Market Structure

Industrial Metals joined Softs, Natural Gas and the main Bloomberg index in structural uptrends within the physical markets while Precious Metals and Livestock are in downtrends. The EAFE joined the EM index in a structural downtrend in the financials while the S&P 500 remains in an uptrend and ten-year UST entered an uptrend.

|                      | N-Day Speed | Market Structure | Trend Oscillator | HLC Volatility | Daily Trend Rate June 4 - 8 |
|----------------------|-------------|------------------|------------------|----------------|-----------------------------|
| BBERG                | 29          | Trending         | 0.081            | 7.6%           | 0.12%                       |
| BBERG Grain          | 16          | Transitional     | 0.009            | 15.7%          |                             |
| BBERG Ind. Metl      | 28          | Trending         | 0.121            | 15.3%          | 0.14%                       |
| BBERG Pre. Metl      | 29          | Trending         | -0.098           | 8.6%           | -0.43%                      |
| BBERG Softs          | 29          | Trending         | 0.392            | 14.3%          | 0.31%                       |
| BBERG Nat. Gas       | 29          | Trending         | 0.202            | 17.5%          | 0.11%                       |
| BBERG Petroleum      | 26          | Trending         | -0.062           | 18.9%          |                             |
| BBERG Livestock      | 29          | Trending         | -0.018           | 13.5%          | -0.18%                      |
| Dollar Index         | 14          | Transitional     | 0.067            | 6.2%           |                             |
| S&P 500 Index        | 29          | Trending         | 0.136            | 11.2%          | 0.10%                       |
| EAFE Index           | 29          | Trending         | -0.251           | 8.1%           | -0.28%                      |
| EM Index             | 24          | Trending         | -0.118           | 9.5%           | -0.09%                      |
| Ten-year UST (price) | 29          | Trending         | 0.128            | 4.6%           | 0.09%                       |

## Performance Measures

The Petroleum markets turned lower again as OPEC is trying to keep the U.S. from capturing greater market share. Softs rallied for a second week, but this is of little economic import. The economically sensitive Industrial Metals rose while Precious Metals declined in the face of higher short-term implied real rates.

|                                    | Commodity Total Returns |           |            |          |
|------------------------------------|-------------------------|-----------|------------|----------|
|                                    | Five-Days               | One Month | Six Months | One Year |
| <b>Bloomberg Index</b>             | -1.12%                  | 0.66%     | 6.34%      | 11.37%   |
| <b>Grains Sub-Index</b>            | -2.00%                  | -2.06%    | 6.70%      | -0.43%   |
| Corn                               | -3.11%                  | -3.49%    | 7.03%      | -7.17%   |
| Soybeans                           | -1.36%                  | -1.35%    | -0.22%     | 6.87%    |
| Wheat                              | -1.28%                  | -0.42%    | 14.10%     | 2.03%    |
| <b>Energy Sub-Index</b>            | -3.32%                  | 1.88%     | 13.72%     | 27.50%   |
| Petroleum Sub-Index                | -4.33%                  | -0.15%    | 19.91%     | 46.26%   |
| WTI                                | -6.89%                  | -5.28%    | 16.95%     | 37.90%   |
| Brent                              | -2.47%                  | 3.32%     | 27.57%     | 58.88%   |
| ULSD                               | -3.77%                  | 1.45%     | 17.52%     | 48.47%   |
| Gasoline                           | -3.76%                  | 1.46%     | 13.05%     | 35.52%   |
| Natural Gas                        | -0.26%                  | 8.23%     | -4.15%     | -16.52%  |
| <b>Precious Metals Sub-Index</b>   | -0.91%                  | -1.23%    | 1.01%      | -1.40%   |
| Gold                               | -0.76%                  | -1.50%    | 1.20%      | 0.64%    |
| Silver                             | -1.43%                  | -0.33%    | 0.29%      | -7.20%   |
| <b>Industrial Metals Sub-Index</b> | 1.38%                   | 1.71%     | 8.40%      | 26.89%   |
| Copper                             | 0.12%                   | 0.57%     | -0.16%     | 18.35%   |
| Aluminum                           | 1.17%                   | -1.98%    | 13.45%     | 20.03%   |
| Nickel                             | 3.64%                   | 10.13%    | 35.63%     | 71.93%   |
| Zinc                               | 2.16%                   | 1.65%     | -1.50%     | 24.86%   |
| <b>Softs Sub-Index</b>             | 2.71%                   | 4.80%     | -4.46%     | -6.32%   |
| Coffee                             | 1.87%                   | 0.27%     | -6.91%     | -10.56%  |
| Sugar                              | 1.17%                   | 8.93%     | -16.25%    | -12.28%  |
| Cotton                             | 6.72%                   | 7.52%     | 28.44%     | 26.94%   |
| <b>Livestock Sub-Index</b>         | 2.17%                   | 2.00%     | -7.17%     | -14.73%  |
| Cattle                             | 1.86%                   | 0.05%     | -6.80%     | -18.27%  |
| Hogs                               | 2.68%                   | 5.43%     | -9.22%     | -9.88%   |

Last week's gains in Latin American currencies reversed this week as political stresses reasserted themselves. The Federal Reserve keeps protesting its virtue by claiming it remains on course with its rate-hike program, but this cannot persist in the face of Eurozone bank stress.

|   | Currency Returns |           |            |          |
|---|------------------|-----------|------------|----------|
|   | Five-Days        | One Month | Six Months | One Year |
| Euro  | 0.07%            | -2.79%    | -1.99%     | 3.98%    |
| Chinese yuan                                  | -0.45%           | -1.37%    | 3.05%      | 6.04%    |
| Japanese yen                                  | -0.12%           | 0.29%     | 2.40%      | 1.67%    |
| British pound                                 | 0.28%            | -1.97%    | -0.97%     | 3.60%    |
| Swiss franc                                   | 0.28%            | 0.85%     | -1.21%     | -1.69%   |
| Canadian dollar                               | 0.17%            | -0.79%    | -2.05%     | 4.35%    |
| Australian dollar                             | 0.28%            | 1.05%     | -0.58%     | 2.64%    |
| Swedish krona                                 | -0.61%           | 0.42%     | -5.31%     | -1.45%   |
| Norwegian krone                               | -0.22%           | -1.25%    | 1.14%      | 3.19%    |
| New Zealand dollar                            | 0.94%            | -0.33%    | 1.32%      | -1.10%   |
| Indian rupee                                  | 1.06%            | -0.60%    | -3.88%     | -3.85%   |
| Brazilian real                                | -2.97%           | -6.88%    | -13.48%    | -13.68%  |
| Mexican peso                                  | -1.99%           | -4.96%    | -6.55%     | -6.50%   |
| Chilean peso                                  | -1.20%           | -2.73%    | 2.55%      | 6.49%    |
| Colombian peso                                | 0.43%            | -2.28%    | 4.60%      | 0.93%    |
| Bloomberg-JP Morgan Asian dollar index (spot) | 0.14%            | -0.61%    | 1.06%      | 3.34%    |

If you take away U.S. large-capitalization technology issues, equity markets are in a broad decline. However, you cannot do that, so we are left with regional and event-driven declines masked by stable averages.

|                        | Equity Total Returns |           |            |          |
|------------------------|----------------------|-----------|------------|----------|
|                        | Five-Days            | One Month | Six Months | One Year |
| <b>MSCI World Free</b> | 0.00%                | 1.31%     | 3.33%      | 11.67%   |
| North America          | 0.57%                | 3.28%     | 4.40%      | 14.65%   |
| Latin America          | -3.26%               | -13.30%   | -4.11%     | 3.92%    |
| Emerging Market Free   | -0.51%               | -2.53%    | 2.34%      | 15.04%   |
| EAFE                   | -0.97%               | -1.13%    | 1.56%      | 8.55%    |
| Pacific                | -1.29%               | -1.05%    | 1.93%      | 10.95%   |
| Eurozone               | -1.20%               | -3.35%    | -0.88%     | 5.00%    |

Both CTAs and hedge funds lost money again. The short-bond and long crude oil trades blew up on a lot of traders, and the declines in Eurozone equities were significant. Once again, those who bemoan a lack of volatility are ill-prepared to deal with it when it arrives.

|                            | CTA/Hedge Fund Returns |           |            |          |
|----------------------------|------------------------|-----------|------------|----------|
|                            | Five-Days              | One Month | Six Months | One Year |
| Newedge CTA                | -3.01%                 | -2.72%    | -4.75%     | -1.89%   |
| Newedge Trend              | -2.24%                 | -2.41%    | -4.42%     | -2.70%   |
| Newedge Short-Term         | -0.46%                 | 0.39%     | 0.55%      | 0.37%    |
| HFR Global Hedge Fund      | -0.06%                 | 0.26%     | 0.07%      | 2.88%    |
| HFR Macro/CTA              | -0.48%                 | -0.36%    | -1.12%     | 0.87%    |
| HFR Macro:                 | -1.34%                 | -0.94%    | -1.82%     | 2.48%    |
| Systematic Diversified CTA |                        |           |            |          |