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## The Macro Environment For Financial Markets

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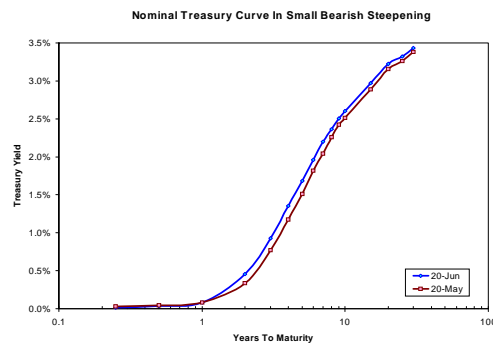
Central banks' domination over financial markets is such that negative geopolitical news and the Argentine shock to emerging market debt simply were ignored. All markets needed to hear was the Federal Reserve is terrified at the prospect of ending its post-crisis policies and will err on the side of inflation if need be.

The causal chain is now:

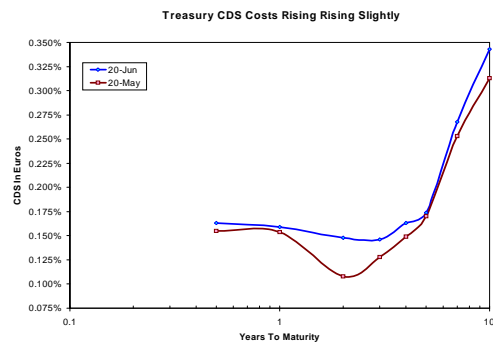
1. Short-term interest rates will remain artificially low and will keep real rates negative below the middle range of the yield curve;
2. The longer-term uptrend in senior sovereign debt remains intact;
3. Inflation expectations as measured by the TIPS market will threaten the top end of their year-long range and must remain below 2.47% basis the ten-year;
4. Short-term borrowers will continue to accept rollover risk and keep their effective maturities as short as possible;
5. Swap spreads will remain low at longer tenors but will be biased toward rising at shorter tenors as there is little room for these rates to decline; and
6. Credit spreads will not move higher in the absence of overt event risk.

### Key Market Indications

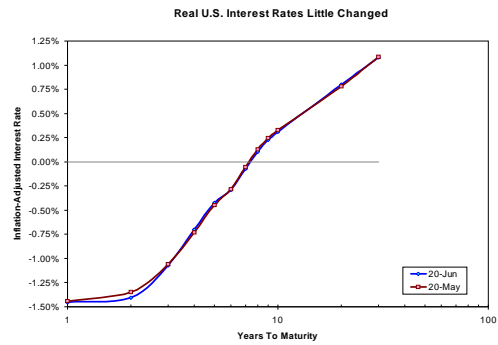
The Treasury yield curve had a small bearish steepening in response to inflation data, but the longer-term trend toward a bullish flattening will remain intact so long as global monetary policies remain accommodative.



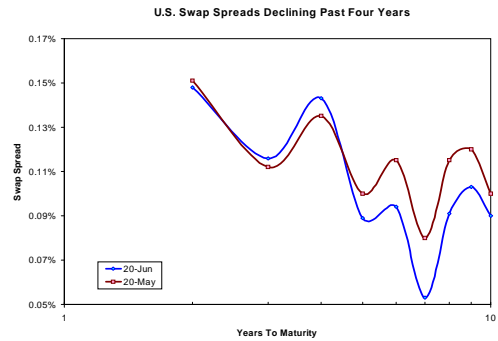
Euro-denominated CDS costs on U.S. Treasuries increased slightly at short-dated tenors over month-ago levels, but the changes are minor.



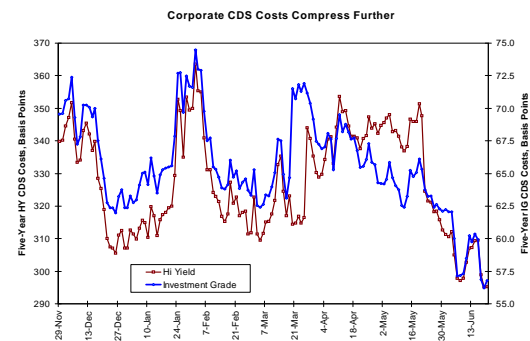
Real rates remain negative out to the seven-year horizon. The inability of short-dated real rates to rise provides some measure of support for the precious metals and maintains a general positive tone for risky financial assets.



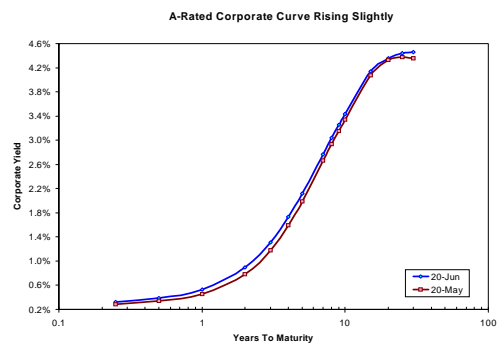
Swap spreads, which rise when floating-rate borrowers want to fix their payments, moved lower past four years. This is prima facie evidence of complacency in fixed-income markets.



Five-year CDS costs for both investment-grade and high-yield bonds broke through to new lows on the cycle after the FOMC announced its intentions to remain accommodative. While this is discounting the same news twice, there is no point in fighting the trend.



The A-rated yield curve has moved similarly to the Treasury yield curve. However, until and unless credit spreads expand, the bullish tone of this market remains intact until an overt policy reversal signal is given.



## Market Structure

While the main DJ-UBS index is in a structural uptrend, only the energy subindices are in structural uptrends. Similarly, only the EAFE index is in a trending structure amongst the financials.

	N-Day Speed	Market Structure	Trend Oscillator	HLC Volatility	Daily Trend Rate For June 23-27
DJ-UBS	29	Trending	0.282	5.1%	0.26%
DJ-UBS Grain	7	Sideways	0.085	11.3%	
DJ-UBS Ind. Metl	26	Trending	0.062	11.9%	
DJ-UBS Pre. Metl	29	Trending	0.384	11.2%	
DJ-UBS Softs	8	Sideways	0.125	15.4%	
DJ-UBS Nat. Gas	29	Trending	0.013	19.5%	0.30%
DJ-UBS Petroleum	29	Trending	0.507	7.8%	0.04%
DJ-UBS Livestock	5	Sideways	0.018	14.0%	
Dollar Index	12	Transitional	-0.048	4.7%	
S&P 500 Index	8	Sideways	0.150	5.7%	
EAFE Index	29	Trending	0.339	5.2%	0.09%
EM Index	6	Sideways	-0.008	9.2%	
Ten-year UST (price)	7	Sideways	0.005	5.1%	

## Performance Measures

Every FOMC meeting with a predictable dovish outcome leads to a burst higher in the Precious Metals, and this week was no exception. Reversals in Grains, Industrial Metals, Softs and Livestock from the previous week are a common occurrence in mid-June as quarterly positions are adjusted.

	Commodity Total Returns			
	Five-Days	One Month	Six Months	One Year
<b>Dow Jones-UBS</b>	1.32%	0.62%	7.26%	7.34%
<b>Grains Sub-Index</b>	0.69%	-5.82%	4.33%	-9.63%
Corn	1.19%	-5.46%	1.52%	-25.78%
Soybeans	0.84%	-3.75%	13.02%	18.64%
Wheat	-0.54%	-10.86%	-5.62%	-21.36%
<b>Energy Sub-Index</b>	-0.05%	3.76%	7.66%	17.41%
Petroleum Sub-Index	1.71%	3.85%	7.86%	17.93%
WTI	0.86%	3.28%	12.35%	21.06%
ULSD	2.13%	3.29%	2.19%	9.33%
Gasoline	2.36%	4.17%	8.27%	16.52%
Natural Gas	-4.12%	3.59%	7.75%	15.26%
<b>Precious Metals Sub-Index</b>	4.17%	3.42%	9.30%	2.09%
Gold	3.34%	1.91%	9.91%	1.60%
Silver	6.57%	7.89%	7.55%	3.87%
<b>Industrial Metals Sub-Index</b>	2.71%	-0.11%	2.88%	4.89%
Copper	2.82%	-1.61%	-5.31%	0.55%
Aluminum	2.23%	3.83%	3.43%	-3.61%
Nickel	1.83%	-6.33%	27.87%	28.58%
Zinc	4.38%	4.25%	4.46%	13.18%
<b>Softs Sub-Index</b>	2.04%	-2.50%	15.32%	9.71%
Coffee	-0.54%	-5.00%	45.19%	34.17%
Sugar	5.04%	3.07%	4.49%	-2.69%
Cotton	-0.86%	-1.64%	1.48%	-2.90%
<b>Livestock Sub-Index</b>	-0.84%	3.98%	17.37%	18.63%
Cattle	-0.20%	6.71%	14.47%	16.98%
Hogs	-1.62%	0.72%	23.02%	22.13%

While the USD moved lower against the EUR, GBP, CHF and CAD, it managed strong gains against the Nordic currencies and against the BRL and INR.

	Currency Returns			
	Five-Days	One Month	Six Months	One Year
Euro	0.44%	-0.74%	-0.53%	2.87%
Japanese yen	-0.03%	-0.73%	1.99%	-4.69%
British pound	0.27%	1.04%	4.14%	9.70%
Swiss franc	0.56%	-0.35%	0.12%	3.63%
Canadian dollar	0.90%	1.39%	-1.14%	-3.45%
Australian dollar	-0.15%	1.57%	5.21%	2.08%
Swedish krona	-0.99%	-1.80%	-1.84%	-2.08%
Norwegian krone	-2.03%	-2.69%	0.71%	-1.96%
New Zealand dollar	0.39%	1.45%	6.07%	12.13%
Indian rupee	-0.69%	-2.57%	3.08%	-1.02%
Brazilian real	-0.26%	-0.63%	7.06%	1.23%
Mexican peso	0.19%	-0.63%	-0.10%	2.89%
Chilean peso	0.11%	-0.55%	-4.72%	-7.56%
Colombian peso	-0.05%	2.06%	2.70%	3.01%
Bloomberg-JP Morgan Asian dollar index (spot)	-0.26%	-0.17%	0.10%	0.38%

While the EM index moved lower on events in Ukraine and Argentina, the senior indices all responded to the strong signals monetary policy would remain loose even if inflationary pressures start to rise.

	Equity Total Returns			
	Five-Days	One Month	Six Months	One Year
<b>MSCI World Free</b>	1.19%	4.35%	9.02%	25.86%
North America	1.42%	5.05%	9.31%	26.46%
Latin America	0.14%	2.71%	9.73%	15.49%
Emerging Market Free	-0.35%	1.85%	7.10%	17.91%
EAFE	0.86%	3.36%	8.61%	24.99%
Pacific	1.14%	5.92%	5.17%	15.31%
Eurozone	0.79%	3.48%	9.92%	35.24%

Both non-trend following CTAs and macro-oriented funds continued their strong performance in June. Strong upward moves in equities and in energy markets and uptrends in currencies such as the GBP, AUD and CAD have contributed to good performance.

	CTA/Hedge Fund Returns			
	Five-Days	One Month	Six Months	One Year
Newedge CTA	0.43%	2.76%	0.70%	1.31%
Newedge Trend	-0.12%	1.84%	2.08%	1.74%
Newedge Short-Term	0.34%	2.60%	2.71%	2.73%
HFR Global Hedge Fund	0.38%	1.93%	2.47%	4.72%
HFR Macro/CTA	0.27%	2.24%	0.37%	-0.43%
HFR Macro: Systematic Diversified CTA	0.67%	2.30%	-1.34%	-0.93%