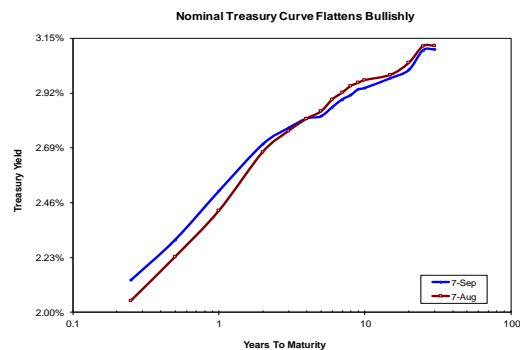


The last time wage pressure led to a jump in short-term rates, the markets responded with huge volatility. This did not happen this time around, but there is only so much event risk and political uncertainty markets can take. The ongoing trade threats are going to cause something to break, and if that does not happen, there will be an emerging market selloff that will force the issue. The causal chain now is:

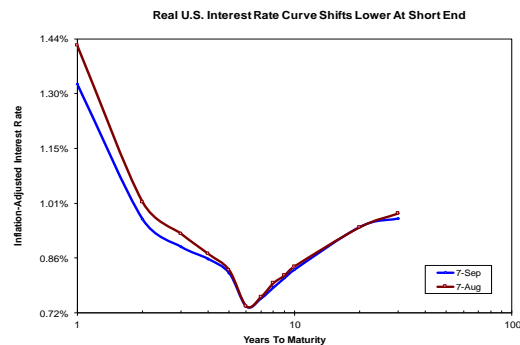
1. The market is pricing in September and December 2018 rate hikes;
2. Inflationary expectations are steady;
3. The yield curve is starting to exit its secular flattening trend;
4. Short-term borrowers are accepting rollover risk rather than term-out borrowing in the bond market;
5. Swap spreads continue to invert bullishly; and
6. CDS costs continue to mirror equity movements.

Key Market Indications

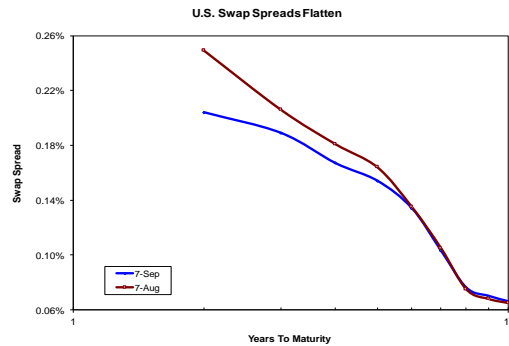
While it feels as if ten-year yields have moved significantly higher, we simply are in the post-January range. The more significant movement continues to come at the short end of the yield curve, which reacted strongly to the August payroll data. It looked as if the Federal Reserve would pause its rate-hike campaign to relieve pressure on emerging markets, but this does not seem to be the case anymore.



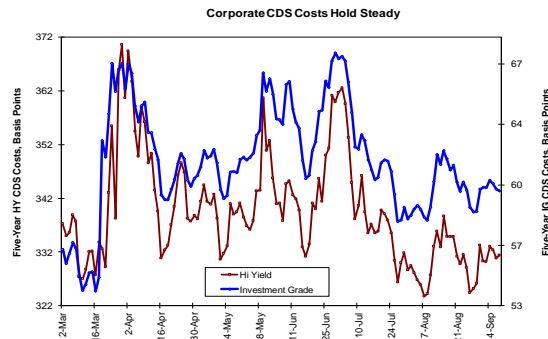
The pseudo-real yield curve declined at the short end of the yield curve as nominal rates rose. The long end of this curve is not moving higher, which remains a positive for risky financial assets.



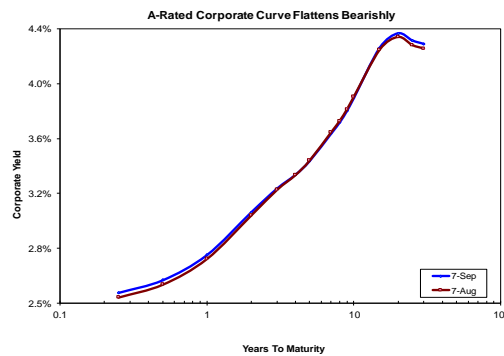
Swap spreads, which rise when floating-rate borrowers want to fix their payments, declined at the short end of the yield curve despite the jump in two-year yields. The long end of the curve held steady.



The narrow range in CDS costs reflects the stall in equities more than anything specific to credit. If short-term rates continue rising, this will put a floor under CDS levels.



The A-rated corporate yield curve flattened bearishly as a function of higher short-term rates. However, this market remains as confined as credit spreads are not declining and the changes in long-term UST rates are minor.



Market Structure

Only Petroleum and Livestock are in structural uptrends within the physical markets. Ten-year UST entered a downtrend; the S&P 500 is clinging to its uptrend.

	N-Day Speed	Market Structure	Trend Oscillator	HLC Volatility	Daily Trend Rate Sep. 10 - 14
BBERG	25	Trending	-0.151	8.6%	-0.13%
BBERG Grain	29	Trending	-0.254	16.7%	-0.22%
BBERG Ind. Metl	13	Transitional	-0.151	16.9%	
BBERG Pre. Metl	12	Transitional	-0.100	9.3%	
BBERG Softs	10	Sideways	0.080	15.6%	
BBERG Nat. Gas	29	Trending	-0.343	12.6%	-0.04%
BBERG Petroleum	25	Trending	0.085	18.3%	0.07%
BBERG Livestock	29	Trending	0.291	12.9%	0.12%
Dollar Index	29	Trending	-0.003	5.3%	-0.14%
S&P 500 Index	22	Trending	0.024	6.8%	0.17%
EAFE Index	29	Trending	-0.325	8.7%	-0.13%
EM Index	13	Transitional	-0.244	9.9%	
Ten-year UST (price)	29	Trending	-0.108	3.2%	-0.09%

Performance Measures

Energy joined Industrial Metals in a selloff as trade tensions, higher short-term rates and a stronger USD threaten global growth. The action in Livestock, once again, is not for the faint of heart as Lean Hogs returned 13.3%.

	Commodity Total Returns			
	Five-Days	One Month	Six Months	One Year
Bloomberg Index	-1.19%	-1.80%	-5.20%	-0.98%
Grains Sub-Index	0.06%	-4.55%	-13.59%	-9.22%
Corn	2.99%	-1.12%	-12.64%	-9.16%
Soybeans	1.55%	-1.90%	-20.57%	-16.46%
Wheat	-4.39%	-10.01%	-4.76%	0.23%
Energy Sub-Index	-2.55%	0.82%	11.43%	23.74%
Petroleum Sub-Index	-2.13%	3.40%	16.28%	40.82%
WTI	-3.19%	1.65%	13.05%	46.24%
Brent	-1.48%	5.26%	20.79%	51.67%
ULSD	-1.61%	3.66%	18.59%	30.12%
Gasoline	-1.92%	2.76%	11.84%	22.53%
Natural Gas	-3.77%	-6.31%	-1.49%	-17.15%
Precious Metals Sub-Index	-0.89%	-2.84%	-11.26%	-14.57%
Gold	-0.34%	-1.37%	-10.11%	-11.95%
Silver	-2.86%	-7.80%	-15.17%	-22.57%
Industrial Metals Sub-Index	-3.80%	-5.14%	-13.18%	-8.44%
Copper	-3.45%	-4.97%	-17.21%	-15.17%
Aluminum	-3.10%	-1.73%	-0.17%	-0.19%
Nickel	-7.01%	-10.67%	-10.98%	6.02%
Zinc	-1.94%	-4.66%	-24.56%	-17.15%
Softs Sub-Index	1.59%	-4.12%	-13.09%	-18.59%
Coffee	-0.15%	-6.76%	-19.25%	-28.42%
Sugar	4.21%	4.63%	-15.81%	-25.25%
Cotton	-0.28%	-3.65%	0.43%	12.67%
Livestock Sub-Index	4.17%	3.02%	-3.16%	-1.30%
Cattle	0.85%	0.80%	-3.12%	-0.11%
Hogs	13.33%	8.92%	-3.27%	-4.61%

Turmoil in emerging markets and a hesitance elsewhere to follow the Federal Reserve higher made this a strong week for the USD. That is a negative for financial markets as it raises risks for all those with USD liabilities.

	Currency Returns			
	Five-Days	One Month	Six Months	One Year
Euro	-0.42%	-0.40%	-6.91%	-3.91%
Chinese yuan	-0.18%	-0.18%	-7.57%	-5.21%
Japanese yen	0.04%	0.35%	-4.43%	-2.29%
British pound	-0.31%	-0.15%	-7.02%	-1.38%
Swiss franc	-0.03%	2.72%	-2.65%	-1.92%
Canadian dollar	-0.92%	-0.82%	-1.89%	-7.95%
Australian dollar	-1.14%	-4.23%	-9.18%	-11.68%
Swedish krona	1.26%	-1.56%	-9.14%	-12.55%
Norwegian krone	-0.82%	-2.93%	-7.67%	-8.50%
New Zealand dollar	-1.33%	-3.00%	-10.28%	-9.66%
Indian rupee	-1.04%	-4.26%	-9.55%	-10.72%
Brazilian real	2.33%	-7.89%	-20.83%	-23.56%
Mexican peso	-1.20%	-4.46%	-3.13%	-8.52%
Chilean peso	-1.11%	-6.95%	-12.72%	-11.03%
Colombian peso	-0.34%	-5.17%	-6.29%	-4.95%
Bloomberg-JP Morgan Asian dollar index (spot)	-0.55%	-1.04%	-6.23%	-4.10%

The EM index has turned decisively bearish; this same index had one of the most overbought trend oscillators ever in January. The poor action elsewhere is likely to pull the U.S. market lower, especially if short-term rates rise.

	Equity Total Returns			
	Five-Days	One Month	Six Months	One Year
MSCI World Free	-1.69%	0.08%	0.89%	11.47%
North America	-1.09%	0.50%	6.17%	17.84%
Latin America	-0.39%	-10.19%	-19.20%	-14.24%
Emerging Market Free	-3.06%	-5.04%	-12.31%	-3.63%
EAFE	-2.83%	-4.02%	-3.90%	0.94%
Pacific	-3.29%	-2.85%	-4.55%	3.40%
Eurozone	-3.11%	-2.20%	-7.19%	-3.35%

Both hedge funds and CTAs lost on the week, suggesting they were caught by the selloff in equities and the downturn in long-term debt.

	CTA/Hedge Fund Returns			
	Five-Days	One Month	Six Months	One Year
SocGen CTA	-1.40%	1.22%	-0.14%	0.53%
SocGen Trend	-1.24%	0.67%	-1.16%	-1.22%
SocGen Short-Term	-0.71%	-0.15%	-1.44%	0.64%
HFR Global Hedge Fund	-0.94%	-0.58%	-1.66%	0.56%
HFR Macro/CTA	-1.31%	0.00%	-0.72%	-0.34%
HFR Macro:	-1.39%	-0.13%	-0.47%	1.27%
Systematic Diversified CTA				