

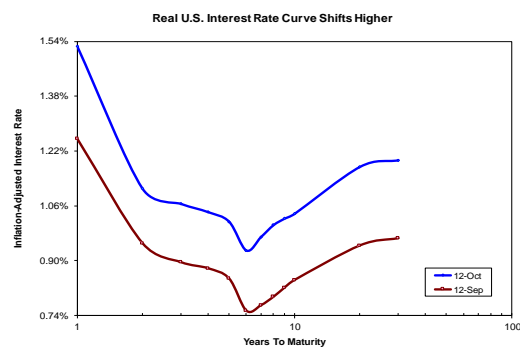
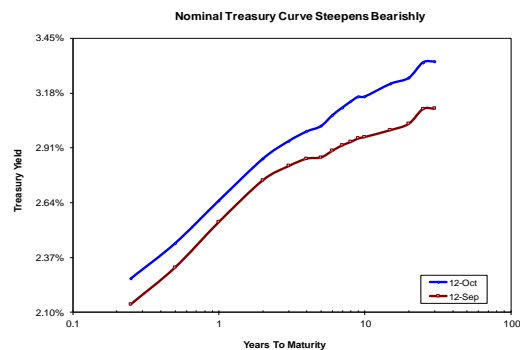
Investing always has been a herding game and a negative-sum one at that during selloffs. This has been exacerbated by the dominance of algorithms and indexation. Once the ball starts rolling downhill, it accelerates into the close. While this probably is not the start of a bear market per se, it most certainly will be a longer-term top, followed by years of consolidation as interest rates rise. The causal chain remains:

1. The market is pricing in December 2018 and March 2019 rate hikes;
2. Inflationary expectations are consolidating recent increases;
3. The yield curve is entering a steepening 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 are rising.

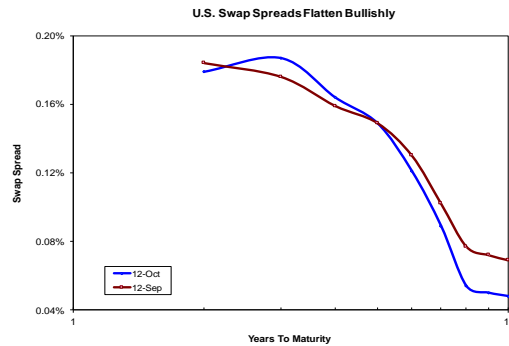
Key Market Indications

To repeat from last week increasingly negative currency basis swaps made U.S. debt unattractive to both Eurozone and Japanese lenders. The strong holders of UST will remain, but we are in a bear market for bonds now. However, President Trump's criticism of the Federal Reserve is correct in they are putting their institutional credibility ahead of everything else and raising rates when more than a century of evidence suggests there are no deterministic outcomes to monetary policy.

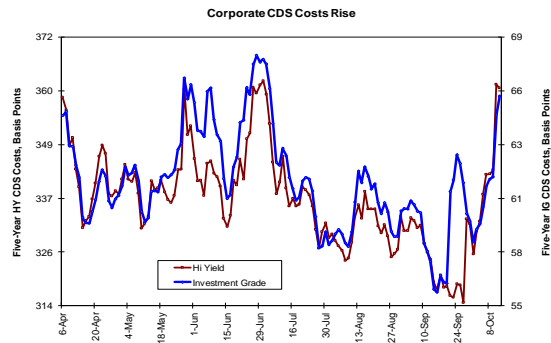
The pseudo-real yield curve shifted higher. The rise at the long yield of this yield curve is sufficient to threaten returns for risky assets.



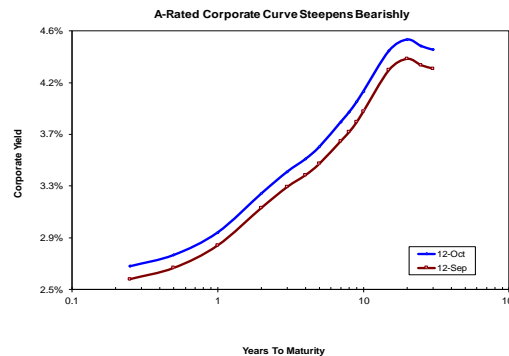
Swap spreads, which rise when floating-rate borrowers want to fix their payments, continue to flatten bullishly. The swap market remains complacent about the prospect for higher long-term yields.



CDS costs rose as equities declined, short-term interest rates rose, Sears is heading into bankruptcy and the Italian debt situation is no closer to resolution.



The A-rated corporate yield curve steepened bearishly in parallel to the Treasury curve. Corporate bond yields have been so low for so long ten-year A-rated yields can rise another 50 basis points and still not be in a bear market.



Market Structure

Precious Metals joined the main Bloomberg index and both Petroleum and Natural Gas in structural uptrends within physical markets. The dollar index remains in an uptrend, ten-year UST remain in a downtrend and all of the stock indices entered downtrends.

	N-Day Speed	Market Structure	Trend Oscillator	HLC Volatility	Daily Trend Rate Oct. 15 - 19
BBerg	29	Trending	0.223	7.8%	0.11%
BBerg Grain	18	Transitional	0.116	14.6%	
BBerg Ind. Metl	7	Sideways	-0.009	20.9%	
BBerg Pre. Metl	23	Trending	0.151	10.7%	0.27%
BBerg Softs	28	Trending	0.390	20.2%	0.29%
BBerg Nat. Gas	29	Trending	0.274	17.6%	0.21%
BBerg Petroleum	29	Trending	0.000	18.5%	0.07%
BBerg Livestock	13	Transitional	-0.225	9.8%	
Dollar Index	29	Trending	0.041	5.6%	0.09%
S&P 500 Index	29	Trending	-0.435	10.0%	-0.29%
EAFE Index	23	Trending	-0.551	9.3%	-0.48%
EM Index	22	Trending	-0.350	12.0%	-0.77%
Ten-year UST (price)	29	Trending	-0.212	3.8%	-0.09%

Performance Measures

The Energy markets tumbled along with equities in a move that had little to do with energy fundamentals. Precious Metals reacted to declining equities even as implied real short-term rates rose; this was a haven response that likely will dissipate.

	Commodity Total Returns			
	Five-Days	One Month	Six Months	One Year
Bloomberg Index	-0.72%	4.76%	-2.44%	2.14%
Grains Sub-Index	0.40%	4.27%	-10.97%	-8.03%
Corn	1.54%	6.43%	-9.98%	-6.34%
Soybeans	-0.08%	4.69%	-19.44%	-17.21%
Wheat	-0.68%	1.30%	-0.33%	1.11%
Energy Sub-Index	-2.79%	6.59%	11.91%	27.54%
Petroleum Sub-Index	-4.41%	3.34%	10.85%	39.92%
WTI	-4.00%	3.90%	9.88%	44.64%
Brent	-4.40%	3.86%	15.06%	50.15%
ULSD	-2.94%	5.05%	11.73%	32.71%
Gasoline	-6.75%	-0.58%	3.50%	19.76%
Natural Gas	1.95%	16.62%	14.91%	-4.91%
Precious Metals Sub-Index	1.08%	2.29%	-10.33%	-9.42%
Gold	1.40%	1.91%	-9.67%	-7.06%
Silver	-0.05%	3.66%	-12.58%	-16.67%
Industrial Metals Sub-Index	-0.50%	4.76%	-9.77%	-6.93%
Copper	1.40%	6.02%	-9.75%	-11.98%
Aluminum	-4.36%	0.62%	-8.79%	-2.23%
Nickel	0.30%	0.04%	-9.31%	8.05%
Zinc	0.71%	15.48%	-11.81%	-14.26%
Softs Sub-Index	4.59%	5.89%	-3.00%	-8.54%
Coffee	7.02%	17.10%	-6.03%	-15.77%
Sugar	3.53%	8.92%	-1.11%	-15.72%
Cotton	3.03%	-4.07%	-3.08%	17.19%
Livestock Sub-Index	-2.41%	-1.85%	3.98%	-4.40%
Cattle	-1.63%	-1.49%	8.67%	-2.28%
Hogs	-4.39%	-2.75%	-4.39%	-9.97%

Currencies were oddly quiet given the violent moves in equities. The downturn in the CNY is significant as it likely is a part of an upcoming resolution of the U.S.-China trade dispute. The JPY once again acted as a haven asset.

	Currency Returns			
	Five-Days	One Month	Six Months	One Year
Euro	0.31%	-0.57%	-6.22%	-2.28%
Chinese yuan	-0.77%	-1.02%	-9.11%	-4.83%
Japanese yen	1.35%	-0.85%	-4.35%	0.06%
British pound	0.25%	0.83%	-7.56%	-0.82%
Swiss franc	-0.09%	-2.22%	-3.07%	-1.75%
Canadian dollar	-0.65%	-0.20%	-3.36%	-4.22%
Australian dollar	0.88%	-0.77%	-8.25%	-9.03%
Swedish krona	1.17%	0.21%	-6.18%	-9.39%
Norwegian krone	1.04%	1.06%	-4.92%	-3.33%
New Zealand dollar	0.99%	-0.87%	-11.78%	-8.66%
Indian rupee	0.27%	-1.88%	-11.30%	-11.53%
Brazilian real	2.52%	9.87%	-10.73%	-16.06%
Mexican peso	-0.19%	0.84%	-3.56%	0.25%
Chilean peso	-0.32%	1.47%	-12.17%	-8.11%
Colombian peso	-2.04%	-1.60%	-12.55%	-4.93%
Bloomberg-JP Morgan Asian dollar index (spot)	-0.05%	-0.98%	-7.04%	-3.77%

To repeat from last week, the persistent threat of higher short-term interest rates and a stronger USD combined to push the main equity indices lower. This could be a persistent correction for the rest of the month.

	Equity Total Returns			
	Five-Days	One Month	Six Months	One Year
MSCI World Free	-4.05%	-4.59%	0.09%	4.24%
North America	-4.12%	-4.22%	4.36%	9.67%
Latin America	1.01%	9.73%	-11.98%	-6.91%
Emerging Market Free	-2.02%	-2.23%	-15.07%	-10.17%
EAFE	-3.93%	-4.40%	-7.37%	-4.22%
Pacific	-3.65%	-2.17%	-5.19%	-0.15%
Eurozone	-4.15%	-5.72%	-11.48%	-9.34%

Both CTAs and macro hedge funds lost heavily on the week, once again demonstrating they are not good hedges against conventional assets. They collectively had to be "risk-on."

	CTA/Hedge Fund Returns			
	Five-Days	One Month	Six Months	One Year
SocGen CTA	-4.67%	-4.63%	-3.63%	-1.96%
SocGen Trend	-3.39%	-3.09%	-3.43%	-2.10%
SocGen Short-Term	-1.28%	-0.44%	-0.29%	0.00%
HFR Global Hedge Fund	-1.85%	-2.38%	-2.98%	-2.58%
HFR Macro/CTA	-3.49%	-3.58%	-2.96%	-2.11%
HFR Macro:	-4.75%	-4.75%	-4.51%	-1.09%
Systematic Diversified CTA				