

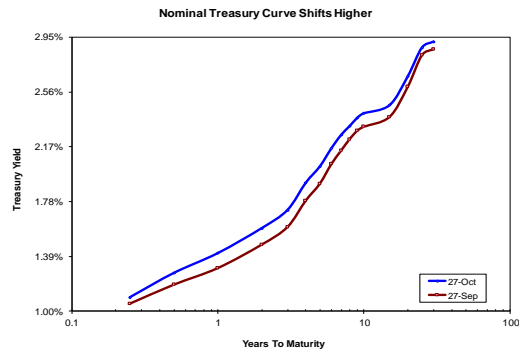
The Macro Environment For Financial Markets

St. Augustine said, “Grant me chastity and continence, but not yet.” Mario Draghi exercised the “not yet” entering QE and is determined to repeat the process for QE tapering. This will lead to a continuation of high financial liquidity, euro weakness and most likely a reverse carry trade into the dollar. Unless the incoming Federal Reserve chairman or the Congressional tax-writing committees do something really silly – and yes, this could happen – the risk-on rally will continue. The causal chain now is:

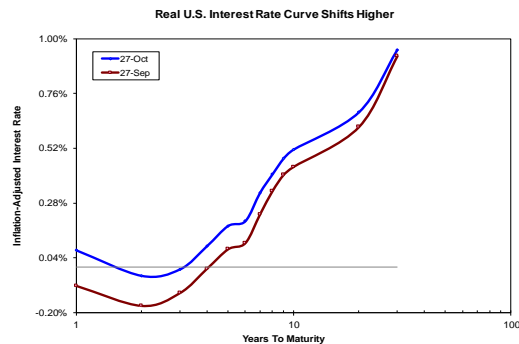
1. The market once again is pricing in a December rate hike;
2. Inflationary expectations are rising slowly;
3. The secular flattening trend in the U.S. continues;
4. Short-term borrowers are close to terming out short-term debt into the bond market;
5. Swap spreads have stopped expanding; and
6. CDS costs remain in their downtrend.

Key Market Indications

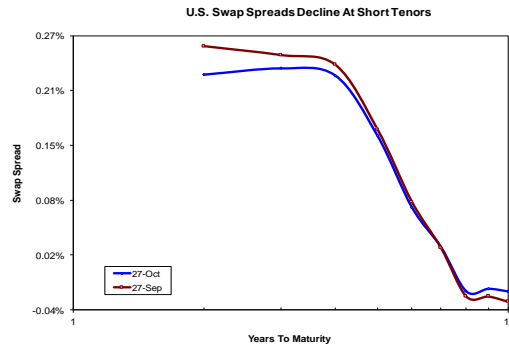
Long-term rates finally failed to hold support at 2.40%. The next target is 2.6425%. Rising inflation expectations are constraining any increase in implied real rates, and the strong ownership of the long end of the yield curve is leading to a continuing flattening thereof.



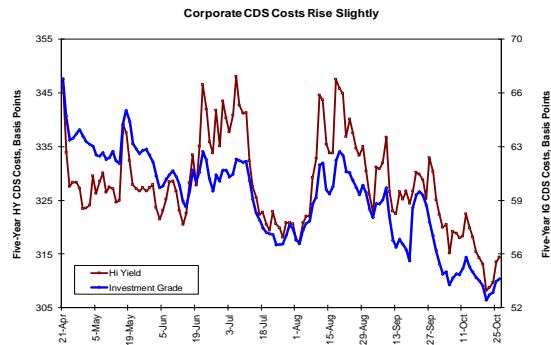
The pseudo-real yield curve shifted higher across the maturity spectrum versus month-ago levels, but is negative over the 2-4 year segment.



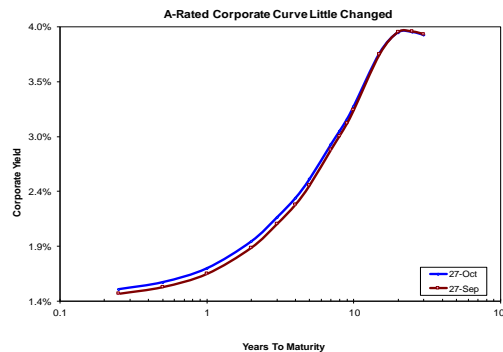
Swap spreads, which rise when floating-rate borrowers want to fix their payments, rose slightly at the long end of the yield curve but declined at the short end. This is bullish for corporate credit and for equities.



CDS costs rose slightly, but the overall trend toward tighter corporate credit spreads remains intact. The reward for moving into corporate debt in a dissipating bull market for UST is becoming rather minimal.



The A-rated corporate yield curve changed very little over the past month. This remains a bull market with limited upside potential.



Market Structure

Petroleum and Livestock joined Industrial Metals and the main Bloomberg index in structural uptrends, while Grains and Natural Gas are in structural downtrends. The dollar index joined the EM and EAFE indices in structural uptrends amongst the financials.

	N-Day Speed	Market Structure	Trend Oscillator	HLC Volatility	Daily Trend Rate Oct.30 - Nov. 3
BBERG	27	Trending	0.142	6.6%	0.13%
BBERG Grain	28	Trending	-0.072	11.3%	-0.07%
BBERG Ind. Metl	29	Trending	0.090	15.2%	0.28%
BBERG Pre. Metl	15	Transitional	-0.155	8.5%	
BBERG Softs	13	Transitional	0.113	14.6%	
BBERG Nat. Gas	28	Trending	-0.252	17.3%	-0.03%
BBERG Petroleum	20	Trending	0.254	17.8%	0.65%
BBERG Livestock	29	Trending	0.336	11.2%	0.19%
Dollar Index	29	Trending	0.282	6.0%	0.09%
S&P 500 Index	5	Sideways	0.092	6.1%	
EAFE Index	24	Trending	0.052	5.1%	0.16%
EM Index	25	Trending	0.059	6.5%	0.18%
Ten-year UST (price)	14	Transitional	-0.098	3.8%	

Performance Measures

It is important to distinguish between a petroleum rally and a “commodity” rally. If this was the hey-day of commodity indexation over 2004-2008 redux, the rally in crude oil would be pulling other markets higher. It is not. This really should be welcomed by anyone who recognizes physical commodities are process inputs and not financial assets.

	Commodity Total Returns			
	Five-Days	One Month	Six Months	One Year
Bloomberg Index	0.72%	1.75%	2.73%	0.76%
Grains Sub-Index	0.53%	-1.62%	-6.24%	-10.90%
Corn	1.26%	-1.75%	-9.70%	-12.38%
Soybeans	-0.26%	0.88%	1.90%	-6.53%
Wheat	0.31%	-4.61%	-9.27%	-12.94%
Energy Sub-Index	1.88%	2.22%	4.48%	-1.23%
Petroleum Sub-Index	4.04%	5.24%	14.23%	7.40%
WTI	3.96%	3.62%	6.55%	0.38%
Brent	4.45%	6.34%	14.03%	9.71%
ULSD	3.40%	3.34%	21.86%	13.43%
Gasoline	4.00%	8.08%	21.74%	10.38%
Natural Gas	-4.26%	-6.29%	-19.06%	-22.74%
Precious Metals Sub-Index	-0.98%	-0.56%	-0.95%	-2.88%
Gold	-0.66%	-0.93%	-0.08%	-1.25%
Silver	-1.89%	0.54%	-3.38%	-7.33%
Industrial Metals Sub-Index	-0.26%	4.61%	17.57%	29.34%
Copper	-1.94%	5.11%	18.27%	38.85%
Aluminum	1.48%	3.12%	12.19%	23.66%
Nickel	-1.29%	10.31%	21.70%	9.39%
Zinc	2.52%	1.25%	22.10%	32.59%
Softs Sub-Index	2.69%	1.42%	-7.94%	-28.64%
Coffee	1.10%	-1.05%	-8.57%	-30.02%
Sugar	4.52%	3.85%	-13.37%	-36.69%
Cotton	2.00%	-0.28%	-9.47%	-3.32%
Livestock Sub-Index	2.18%	5.81%	1.27%	25.31%
Cattle	3.65%	4.93%	-3.62%	24.95%
Hogs	-0.60%	7.60%	9.90%	25.66%

The USD rose across the board. We are moving back toward an environment favoring both fiscal stimulus and somewhat tighter monetary conditions in the U.S. Both are bullish for the USD. The delayed start of Eurozone tapering accelerates this trend.

	Currency Returns			
	Five-Days	One Month	Six Months	One Year
Euro	-1.49%	-1.17%	6.76%	6.52%
Chinese yuan	-0.45%	-0.12%	3.72%	2.00%
Japanese yen	-0.13%	-0.73%	-2.12%	-7.37%
British pound	-0.47%	-1.93%	1.74%	7.93%
Swiss franc	-1.39%	-2.60%	-0.40%	-0.45%
Canadian dollar	-1.41%	-2.58%	6.44%	4.51%
Australian dollar	-1.79%	-2.19%	2.84%	1.16%
Swedish krona	-2.51%	-2.66%	5.52%	8.46%
Norwegian krone	-2.02%	-2.40%	5.12%	1.47%
New Zealand dollar	-1.22%	-4.47%	0.03%	-3.41%
Indian rupee	-0.02%	1.02%	-1.38%	2.79%
Brazilian real	-1.29%	-1.31%	-1.58%	-2.14%
Mexican peso	-0.71%	-4.86%	-0.55%	-1.53%
Chilean peso	-1.04%	0.30%	4.44%	2.25%
Colombian peso	-2.41%	-2.39%	-2.41%	-1.65%
Bloomberg-JP Morgan Asian dollar index (spot)	-0.09%	0.16%	1.86%	1.68%

Gains in the U.S. and Japan were not able to keep the global index higher. The rise in the USD is having the same effect it had throughout much of the 2014-2016 period in allowing U.S. outperformance.

	Equity Total Returns			
	Five-Days	One Month	Six Months	One Year
MSCI World Free	-0.04%	1.79%	9.67%	23.31%
North America	0.14%	2.75%	9.11%	22.97%
Latin America	-2.63%	-1.28%	10.98%	12.77%
Emerging Market Free	-0.84%	3.01%	15.27%	25.86%
EAFE	-0.34%	1.97%	10.21%	23.17%
Pacific	0.72%	3.70%	11.13%	19.11%
Eurozone	-0.54%	-0.22%	11.92%	29.70%

While CTAs had a strong week, hedge funds did not. The divergence likely is due to soft equity returns outside of the U.S. CTAs have latched on to the strong USD and weaker bond trades.

	CTA/Hedge Fund Returns			
	Five-Days	One Month	Six Months	One Year
Newedge CTA	0.08%	3.19%	0.43%	-3.61%
Newedge Trend	0.34%	2.40%	0.10%	-2.21%
Newedge Short-Term	0.82%	1.73%	-0.40%	-5.33%
HFR Global Hedge Fund	-0.27%	0.52%	2.55%	6.18%
HFR Macro/CTA	-0.09%	1.16%	2.08%	0.04%
HFR Macro:	0.01%	2.05%	2.07%	-0.39%
Systematic Diversified CTA				

Futures trading involves the substantial risk of loss and is not suitable for all investors. Each investor must consider whether this is a suitable investment since you may lose all of or more than your initial investment. Past performance is not indicative of future results.