

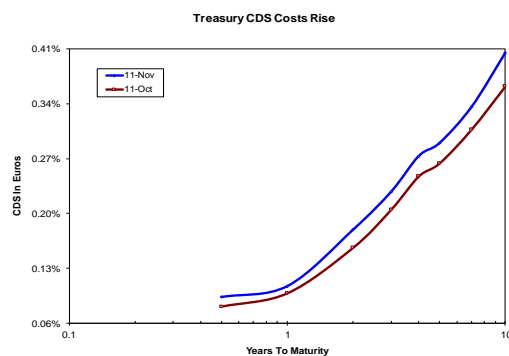
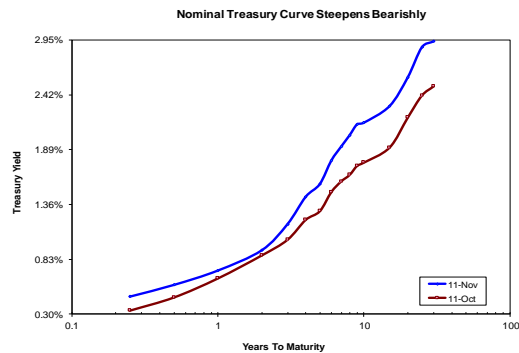
If, as the old joke goes, economists exist to make weather forecasters look good, pollsters exist to make everyone look good. It is premature to start ascribing market consequences to the incoming administration for the simple reason they managed to complete a long campaign without offering a coherent and credible program. Once it arrives, we can position ourselves. The resulting trades will be long-lived; there is no reason to be first to execute. So saying, we have to deal with an environment pricing in higher inflation and a stronger USD for starters. The causal chain now is:

1. The market is pricing in a December increase in U.S. short-term rates;
2. Inflationary expectations are rising globally, albeit excessively;
3. The U.S. yield curve has exited its long-running bullish flattening;
4. Short-term borrowers are likely to stop terming out short-term debt into the bond market;
5. Swap spreads are starting to rise at the long end of the yield curve; and
6. CDS costs are rising to reflect higher short-term interest rates and reduction synthetic bond holdings.

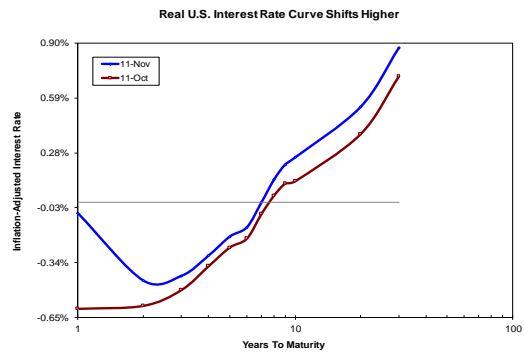
Key Market Indications

The combination of fiscal stimulus and reduced monetary accommodation in the Reagan administration's first year led to what turned out to be a 35-year bull market in bonds accompanied by declining inflation. In other words, what appears to be bearish in the short-term can be bullish in the long-term. However, the technical damage to the UST market is severe and you will not see the July lows again for a very long time, if ever.

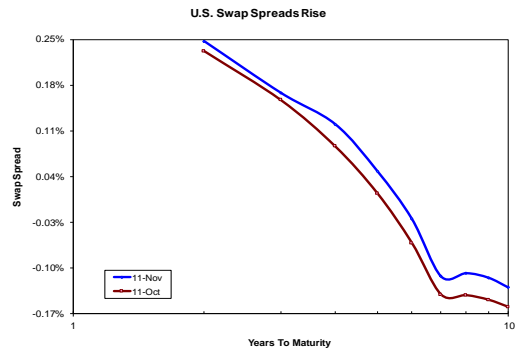
CDS costs on UST shifted higher over the past month. It is doubtful the incoming administration will jeopardize the U.S.' credit rating, but the incoming administration may be given a very short leash by foreign creditors.



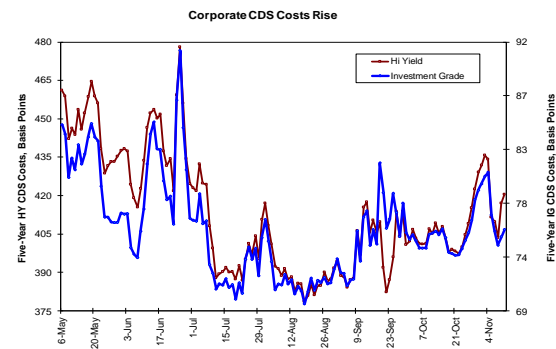
The pseudo-real yield curve rose at the short end of the yield curve over the past month. The increase in these measures in both the U.S. and elsewhere put pressure on the precious metals. This rise in long-term implied real rates is a negative for risky financial assets.



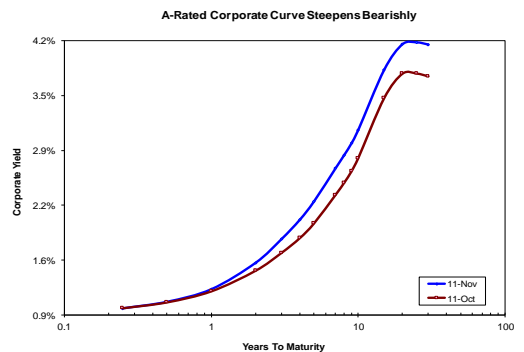
Swap spreads, which rise when floating-rate borrowers want to fix their payments, continue to rise. The increase has combined with the upturn UST yields to push corporate bond yields higher.



CDS costs moved higher in the absence of bearish corporate credit news. This reflects anticipation of higher short-term interest rates. In addition, synthetic corporate bonds created from buying UST and writing CDS are being liquidated and this necessitates the selling of CDS.



The A-rated corporate yield curve continues to shift higher at the long end of the yield curve. This reflects movements in the Treasury market far more than it does credit spreads.



Market Structure

Only Industrial Metals are in a structural uptrend within physical commodities. The S&P 500 reversed into a structural uptrend within the financials.

	N-Day Speed	Market Structure	Trend Oscillator	HLC Volatility	Daily Trend Rate Nov. 7 - 11
BBerg	29	Trending	-0.280	10.4%	-0.61%
BBerg Grain	28	Trending	-0.081	16.7%	-0.22%
BBerg Ind. Metl	29	Trending	0.361	20.5%	0.07%
BBerg Pre. Metl	22	Trending	-0.222	16.8%	-0.20%
BBerg Softs	21	Trending	-0.136	16.9%	-0.17%
BBerg Nat. Gas	29	Trending	-0.303	31.8%	-1.08%
BBerg Petroleum	29	Trending	-0.430	22.6%	-1.79%
BBerg Livestock	6	Sideways	0.070	14.0%	
Dollar Index	12	Transitional	0.090	10.9%	
S&P 500 Index	29	Trending	0.126	9.9%	0.08%
EAFE Index	29	Trending	-0.144	11.6%	-0.32%
EM Index	29	Trending	-0.499	12.3%	-0.41%
Ten-year UST (price)	29	Trending	-0.384	7.2%	-0.77%

Performance Measures

Some of the large moves seen, such as the decline in the Energy subindex, could be justified by the diminished prospects for supply reductions. The decline in Precious Metals reflects the move higher in short-term implied real rates. The jump in copper, however, is just downright silly; nothing suggests a U.S. infrastructure extravaganza reminiscent of last decade's construction boom in China.

	Five-Days	One Month	Six Months	One Year
Bloomberg Index	-1.10%	-4.57%	-2.32%	0.22%
Grains Sub-Index	-1.58%	-1.80%	-13.68%	-7.56%
Corn	-2.40%	-3.89%	-16.22%	-12.21%
Soybeans	-0.47%	1.65%	-6.38%	14.73%
Wheat	-2.48%	-4.03%	-20.59%	-25.94%
Energy Sub-Index	-2.26%	-15.92%	-8.43%	-18.82%
Petroleum Sub-Index	-1.98%	-13.65%	-11.21%	-17.39%
WTI	-1.11%	-13.85%	-12.75%	-24.37%
Brent	-1.78%	-14.94%	-11.43%	-15.68%
ULSD	-2.18%	-11.95%	-5.90%	-13.49%
Gasoline	-4.15%	-12.09%	-12.51%	-13.75%
Natural Gas	-2.96%	-21.42%	2.58%	-25.07%
Precious Metals Sub-Index	-5.99%	-1.91%	-3.00%	14.85%
Gold	-6.20%	-2.52%	-4.42%	12.48%
Silver	-5.46%	-0.40%	0.63%	20.84%
Industrial Metals Sub-Index	5.84%	11.34%	20.96%	20.20%
Copper	10.79%	18.92%	20.26%	14.17%
Aluminum	1.20%	4.06%	12.46%	13.69%
Nickel	7.12%	6.79%	28.72%	17.08%
Zinc	0.91%	9.36%	29.92%	49.70%
Softs Sub-Index	-2.27%	-1.93%	20.98%	30.03%
Coffee	-6.87%	2.71%	18.05%	28.41%
Sugar	-0.13%	-5.26%	25.50%	38.39%
Cotton	-0.14%	-3.01%	12.67%	10.21%
Livestock Sub-Index	2.20%	9.19%	-18.17%	-14.31%
Cattle	2.40%	7.96%	-11.85%	-12.58%
Hogs	2.01%	11.52%	-26.69%	-16.44%

While the prospects for greater U.S. fiscal stimulus and a reduction of monetary accommodation may not be as strong as this past week's knee-jerk reaction, a similar consensus following the Reagan election in 1980 led to a four-year+ bull market in the USD the likes of which we have yet to see repeated. More important, nothing suggests a weaker USD will emerge.

	Five-Days	One Month	Six Months	One Year
Currency Returns				
Euro	-2.57%	-1.80%	-5.00%	1.04%
Chinese yuan	-0.81%	-1.32%	-4.60%	-6.54%
Japanese yen	-3.31%	-2.94%	1.65%	15.20%
British pound	0.63%	3.90%	-12.82%	-17.20%
Swiss franc	-1.98%	0.08%	-1.72%	1.68%
Canadian dollar	-1.02%	-2.05%	-5.09%	-2.07%
Australian dollar	-1.66%	0.09%	2.32%	6.85%
Swedish krona	-1.64%	-3.03%	-10.50%	-4.55%
Norwegian krone	-2.79%	-2.52%	-2.71%	2.59%
New Zealand dollar	-2.68%	1.05%	4.55%	8.71%
Indian rupee	-0.80%	-1.06%	-1.01%	-1.39%
Brazilian real	-4.88%	-6.08%	1.45%	10.54%
Mexican peso	-8.74%	-9.28%	-13.70%	-19.75%
Chilean peso	-1.78%	-0.32%	1.62%	4.34%
Colombian peso	0.53%	-4.04%	-3.45%	-3.37%
Bloomberg-JP Morgan Asian dollar index (spot)	-1.20%	-1.51%	-2.62%	-2.74%

The devastation wrought on Latin American markets is exaggerated. However, the prospects for a stronger USD will erode carry trades into all emerging markets and favor both the U.S. and Eurozone indices.

	Five-Days	One Month	Six Months	One Year
Equity Total Returns				
MSCI World Free	2.28%	0.34%	4.97%	5.31%
North America	3.57%	1.19%	5.91%	6.53%
Latin America	-10.36%	-10.64%	0.81%	11.71%
Emerging Market Free	-3.51%	-6.18%	6.95%	4.66%
EAFE	0.11%	-2.10%	0.63%	-2.67%
Pacific	-0.14%	-0.46%	8.18%	4.79%
Eurozone	-0.26%	-1.52%	0.39%	-3.55%

While trend-following CTAs lost money this past week, the losses were surprisingly small given the reversals and lack of liquidity. Hedge funds made money, which suggests they have embraced the short sovereign bond trade.

	Five-Days	One Month	Six Months	One Year
CTA/Hedge Fund Returns				
Newedge CTA	0.31%	-4.02%	-5.83%	-6.41%
Newedge Trend	-0.32%	-2.75%	-4.47%	-2.40%
Newedge Short-Term	-0.70%	-3.39%	-7.83%	-4.10%
HFR Global Hedge Fund	1.13%	-0.43%	2.69%	-0.69%
HFR Macro/CTA	0.71%	-1.93%	-2.93%	-3.67%
HFR Macro:	1.18%	-2.89%	-3.57%	-1.25%
Systematic Diversified CTA				