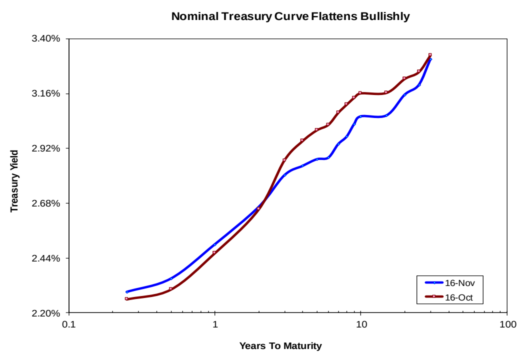
The Macro Environment For Financial Markets

I commented last week logic would dictate the Federal Reserve should pause in its self-fulfilling prophecy of higher short-term rates. This bears repeating. As the world remains dollar-short and interest rate-sensitive sectors absorb the effects of higher rates, the only thing a mindless march toward further tightening will do is create havoc. The markets will remain risk-off until a signal of a policy pause is given. The causal chain now is:

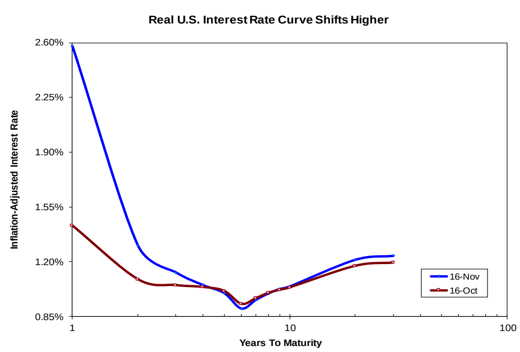
1. The market is pricing in December 2018 and March 2019 rate hikes, but are uncertain after that;
2. Inflationary expectations remain under downward pressure;
3. The yield curve is in a trading range;
4. Short-term borrowers are accepting rollover risk rather than term-out borrowing in the bond market;
5. Swap spreads remain inverted; and
6. CDS costs are rising.

Key Market Indications

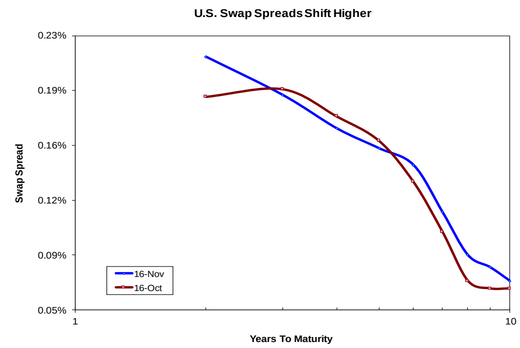
The long end of the UST rallied in the face of increasing evidence the "strong economy" trope driving the Federal Reserve is yesterday's news. Inflation expectations stopped falling and the yield curve actually steepened slightly.



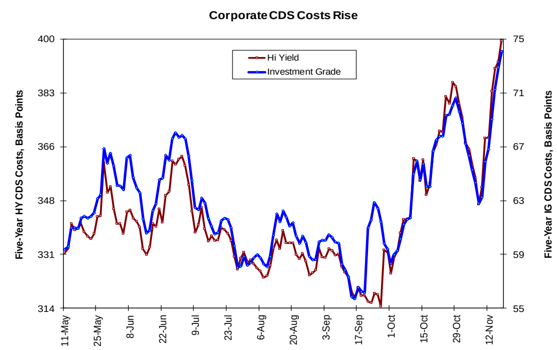
The pseudo-real yield curve shifted higher, especially at the short end. As expected, this has proven to be a negative for precious metals. The recent rise at the long end of the curve has slowed.



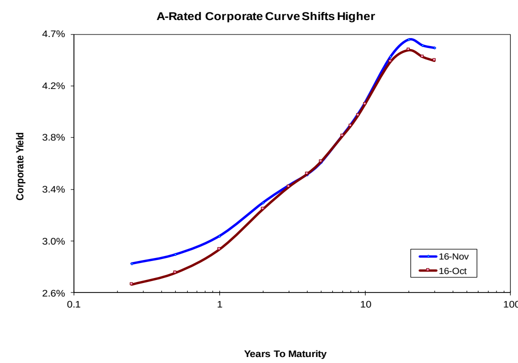
Swap spreads, which rise when floating-rate borrowers want to fix their payments, shifted higher. In a continued divergence from recent behavior, spreads rose at the long end of the curve as well as at the short end.



CDS costs jumped as concerns about GE in investment-grade and the energy industry in high-yield raised the risk of corporate debt. Fortunately, the general state of debt service capabilities remains quite high and will barring a recession.



The A-rated corporate yield curve rose at both the long and short ends of the yield curve as borrowing has shifted from the bond market to bank lending.



Market Structure

Natural Gas entered a structural uptrend, but no other physical market is bullish. Ten-year UST remain in a downtrend. All of the stock indices are in unstable transitional structures.

	N-Day Speed	Market Structure	Trend Oscillator	HLC Volatility	Daily Trend Rate Nov. 19 - 23
BBerg	29	Trending	-0.330	9.0%	-0.20%
BBerg Grain	29	Trending	-0.058	12.9%	-0.10%
BBerg Ind. Metl	29	Trending	-0.058	15.7%	-0.04%
BBerg Pre. Metl	29	Trending	-0.003	8.7%	-0.14%
BBerg Softs	16	Transitional	-0.096	19.8%	
BBerg Nat. Gas	22	Trending	0.189	24.9%	0.24%
BBerg Petroleum	29	Trending	-0.506	24.3%	-0.81%
BBerg Livestock	29	Trending	0.080	11.3%	
Dollar Index	12	Transitional	-0.035	6.2%	
S&P 500 Index	14	Transitional	-0.010	16.1%	
EAFE Index	13	Transitional	-0.068	12.2%	
EM Index	13	Transitional	0.042	14.3%	
Ten-year UST (price)	22	Trending	0.172	4.2%	0.08%

Performance Measures

Natural Gas can be used to illustrate inelastic price curves; its jump and retreat on Wednesday and Thursday were sights to behold. The selloff in Petroleum might have been overdone, but this has to be considered a failed bear market at this point. Economically sensitive Industrial Metals rose, belying the recent fretting about a collapse in Chinese demand.

Commodity Total Returns

	Five-Days	One Month	Six Months	One Year
Bloomberg Index	1.27%	-2.19%	-6.21%	-1.49%
Grains Sub-Index	-0.18%	-0.28%	-12.61%	-7.06%
Corn	-1.36%	-0.49%	-13.90%	-5.67%
Soybeans	0.67%	2.68%	-13.01%	-14.46%
Wheat	0.79%	-1.71%	-8.08%	1.93%
Energy Sub-Index	1.75%	-3.87%	0.16%	14.67%
Petroleum Sub-Index	-4.85%	-15.88%	-15.23%	5.78%
WTI	-6.05%	-18.12%	-17.70%	5.76%
Brent	-4.85%	-15.57%	-12.46%	13.90%
ULSD	-4.43%	-10.13%	-8.32%	8.72%
Gasoline	-2.73%	-17.91%	-22.67%	-11.76%
Natural Gas	15.38%	26.99%	45.39%	26.68%
Precious Metals Sub-Index	1.35%	-0.58%	-7.18%	-9.14%
Gold	1.23%	-0.29%	-5.55%	-6.31%
Silver	1.78%	-1.63%	-12.63%	-17.83%
Industrial Metals Sub-Index	1.75%	-2.27%	-13.45%	-8.56%
Copper	4.08%	0.72%	-9.11%	-10.32%
Aluminum	-1.01%	-3.59%	-13.78%	-5.70%
Nickel	-0.95%	-8.74%	-23.06%	-2.04%
Zinc	3.44%	-0.30%	-12.22%	-13.74%
Softs Sub-Index	-0.90%	-3.62%	-3.65%	-13.93%
Coffee	-1.04%	-7.59%	-7.99%	-16.87%
Sugar	-0.27%	-8.47%	0.51%	-23.20%
Cotton	-1.98%	-1.52%	-8.73%	13.80%
Livestock Sub-Index	4.50%	5.10%	10.72%	-0.88%
Cattle	1.69%	-0.14%	12.43%	-3.48%
Hogs	11.43%	19.47%	9.51%	4.13%

Were it not for Brexit's effects on the GBP, the USD would have retreated against the other majors as the currency market is turning skeptical about the pace of U.S. short-term rate hikes. Both the MXN and BRL continued their pullbacks as questions about their incoming presidents' policies linger.

Currency Returns

	Five-Days	One Month	Six Months	One Year
Euro	0.70%	-1.37%	-3.33%	-3.02%
Chinese yuan	0.27%	-0.37%	-8.17%	-4.44%
Japanese yen	0.89%	-0.51%	-2.15%	0.20%
British pound	-1.06%	-2.63%	-4.83%	-2.74%
Swiss franc	0.57%	-0.92%	0.13%	-0.58%
Canadian dollar	0.49%	-1.63%	-2.72%	-2.97%
Australian dollar	1.47%	2.67%	-2.45%	-3.37%
Swedish krona	0.86%	-1.07%	-3.31%	-6.71%
Norwegian krone	-0.07%	-3.48%	-4.29%	-2.74%
New Zealand dollar	2.09%	4.62%	-0.26%	0.39%
Indian rupee	0.79%	2.15%	-5.74%	-9.18%
Brazilian real	-0.25%	-0.40%	-1.73%	-12.35%
Mexican peso	-0.15%	-7.01%	-2.95%	-5.51%
Chilean peso	2.05%	-0.23%	-6.08%	-6.02%
Colombian peso	0.43%	-3.61%	-9.67%	-4.77%
Bloomberg-JP Morgan Asian dollar index (spot)	0.45%	0.21%	-5.17%	-3.45%

The EM index was the leader this week; it has sold off so far relative to other indices it appears cheap. This logic generally is mistaken. Equities remain in a bearish stance.

Equity Total Returns

	Five-Days	One Month	Six Months	One Year
MSCI World Free	-1.45%	-1.31%	-3.16%	2.38%
North America	-1.46%	-2.61%	0.73%	6.93%
Latin America	1.65%	-3.70%	-4.36%	0.58%
Emerging Market Free	1.05%	0.23%	-12.99%	-9.89%
EAFE	-1.42%	-1.82%	-10.31%	-5.74%
Pacific	-1.18%	-2.44%	-9.53%	-4.96%
Eurozone	-0.84%	-1.16%	-12.74%	-9.14%

It is hard to believe CTAs gained on the week given the violence in energy markets, but they did. Hedge funds continued their typical pattern of losing during equity pullbacks.

CTA/Hedge Fund Returns

	Five-Days	One Month	Six Months	One Year
SocGen CTA	0.73%	-0.18%	-7.91%	-5.55%
SocGen Trend	0.81%	0.42%	-5.75%	-4.69%
SocGen Short-Term	0.06%	-1.15%	-3.08%	0.30%
HFR Global Hedge Fund	-0.76%	-1.44%	-4.81%	-3.33%
HFR Macro/CTA	-0.22%	-0.20%	-5.42%	-3.08%
HFR Macro: Sytematic Diversified CTA	0.02%	0.15%	-6.66%	-3.15%