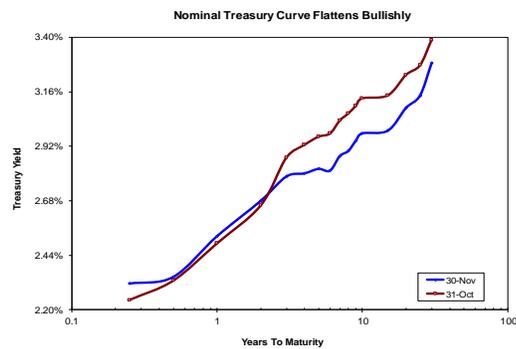


The good news is the Federal Reserve is taking itself off of auto-pilot. The bad news is we have delegated too much power to an unelected body prone to arrogant groupthink and the willingness to act as if there were deterministic consequences to their actions. At least we do not have to listen to further prattle about how higher interest rates now will give them room to respond to any crisis produced by tighter monetary policy. The causal chain now is:

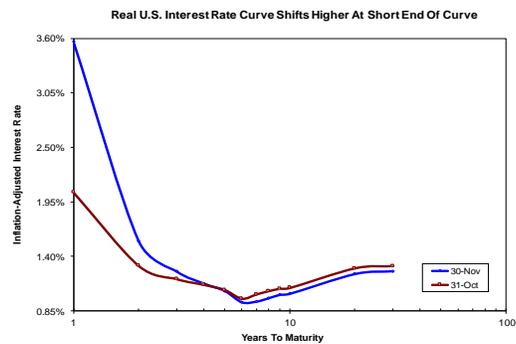
1. The market is pricing in a December rate hike, but is uncertain after that;
2. The yield curve remains in a bullish flattening;
3. Inflationary expectations continue to decline;
4. Short-term borrowers are accepting rollover risk rather than term-out borrowing in the bond market;
5. Swap spreads remain inverted; and
6. CDS costs have stopped rising.

Key Market Indications

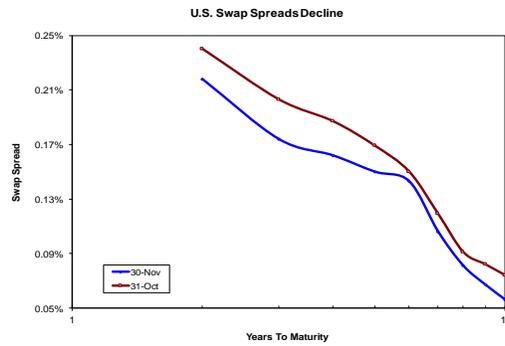
The long end of the UST continued its rally even as the threat of an engineered recession has abated. However, as inflation expectations have stopped declining and as the risk-off flow has slowed, this still feels like a short-term rally.



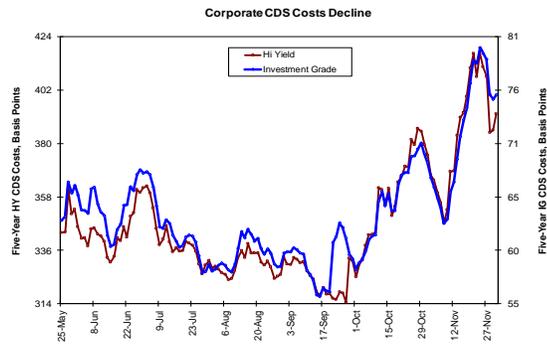
The pseudo-real yield curve continued its shift higher at the short end. The recent rise at the long end of the curve has ended.



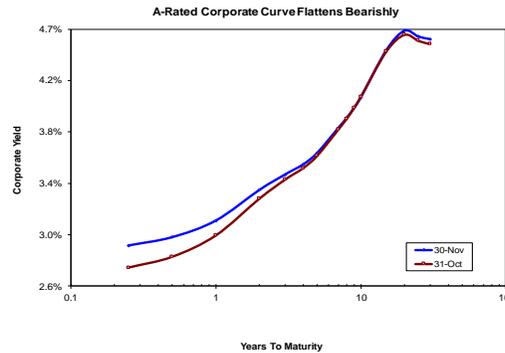
Swap spreads, which rise when floating-rate borrowers want to fix their payments, declined across the maturity spectrum as the end of rate hikes appears in sight.



While CDS costs moved lower from their recent risk-off highs, they started to rise as the threat of lower crude oil prices keeps the high-yield market on edge and as the potential downgrade of GE threatens the investment-grade market.



The A-rated corporate yield curve remains higher at the short end of the yield curve as borrowing has shifted from the bond market to bank lending.



Market Structure

Grains joined Livestock in a structural uptrend while the remainder of the physical markets remain under pressure. Ten-year UST remain in an uptrend. The EM index moved into a structural uptrend.

	N-Day Speed	Market Structure	Trend Oscillator	HLC Volatility	Daily Trend Rate Dec. 3 - 7
BBerg	29	Trending	-0.313	9.9%	-0.20%
BBerg Grain	21	Trending	0.021	12.3%	0.51%
BBerg Ind. Metl	10	Sideways	0.041	12.8%	
BBerg Pre. Metl	25	Trending	-0.050	8.5%	-0.14%
BBerg Softs	24	Trending	-0.130	19.6%	-0.59%
BBerg Nat. Gas	6	Sideways	0.011	25.3%	
BBerg Petroleum	4	Sideways	-0.014	38.1%	
BBerg Livestock	29	Trending	0.078	11.6%	0.55%
Dollar Index	10	Sideways	0.077	5.8%	
S&P 500 Index	18	Transitional	0.098	14.3%	
EAFE Index	19	Transitional	-0.034	11.3%	
EM Index	20	Trending	0.092	12.7%	0.14%
Ten-year UST (price)	24	Trending	0.288	3.8%	0.08%

Performance Measures

Several commentators were quick to proclaim an end to the commodity bear market. We would need to see a combination of stronger global growth and reduced revenue needs amongst key producers for that to be the case. A little monetary lassitude in the U.S. is far less important for these markets than is supposed commonly.

	Commodity Total Returns			
	Five-Days	One Month	Six Months	One Year
Bloomberg Index	1.37%	-1.40%	-7.75%	-2.72%
Grains Sub-Index	1.90%	-0.65%	-12.37%	-7.12%
Corn	2.00%	-1.11%	-10.99%	-6.12%
Soybeans	1.61%	0.97%	-14.69%	-14.51%
Wheat	1.72%	-0.45%	-8.86%	3.23%
Energy Sub-Index	2.67%	-1.22%	-1.24%	9.91%
Petroleum Sub-Index	0.47%	-18.16%	-20.86%	-7.02%
WTI	1.06%	-19.37%	-19.79%	-7.62%
Brent	0.64%	-18.55%	-20.72%	-6.79%
ULSD	-2.14%	-15.44%	-15.75%	-3.37%
Gasoline	1.93%	-17.66%	-28.05%	-20.96%
Natural Gas	5.96%	39.60%	51.90%	41.98%
Precious Metals Sub-Index	-0.38%	-1.65%	-7.86%	-7.20%
Gold	-0.21%	-0.90%	-5.94%	-5.14%
Silver	-1.00%	-4.30%	-14.30%	-14.12%
Industrial Metals Sub-Index	0.81%	-1.63%	-15.44%	-8.67%
Copper	0.12%	-1.12%	-10.84%	-11.04%
Aluminum	0.67%	-0.80%	-14.30%	-3.07%
Nickel	2.65%	-6.09%	-27.53%	-0.90%
Zinc	0.99%	0.54%	-13.89%	-17.11%
Softs Sub-Index	0.79%	-3.51%	-12.94%	-15.75%
Coffee	-3.02%	-13.08%	-18.19%	-24.46%
Sugar	3.01%	-4.29%	-5.27%	-20.23%
Cotton	2.24%	-1.83%	-14.65%	8.59%
Livestock Sub-Index	-0.32%	2.37%	7.20%	-0.42%
Cattle	-0.31%	0.25%	7.28%	-0.66%
Hogs	-0.36%	7.33%	8.66%	-0.02%

While the USD continued to advance on the majors, the prospect of a less-hawkish Federal Reserve lent support to the INR, AUD and NZD.

	Currency Returns			
	Five-Days	One Month	Six Months	One Year
Euro	-0.18%	0.04%	-3.22%	-4.93%
Chinese yuan	-0.17%	0.22%	-7.90%	-5.05%
Japanese yen	-0.54%	-0.55%	-4.18%	-0.91%
British pound	-0.51%	-0.13%	-4.13%	-5.74%
Swiss franc	-0.05%	1.06%	-1.21%	-1.43%
Canadian dollar	-0.41%	-1.02%	-2.51%	-2.97%
Australian dollar	1.01%	3.29%	-3.46%	-3.44%
Swedish krona	-0.14%	0.66%	-3.20%	-8.00%
Norwegian krone	-0.25%	-2.10%	-5.09%	-3.48%
New Zealand dollar	1.34%	5.45%	-1.84%	0.59%
Indian rupee	1.60%	6.28%	-3.12%	-7.36%
Brazilian real	-1.01%	-3.70%	-3.70%	-15.49%
Mexican peso	0.19%	-0.14%	-2.23%	-8.54%
Chilean peso	0.43%	3.59%	-6.04%	-3.55%
Colombian peso	-0.22%	-0.47%	-10.66%	-6.77%
Bloomberg-JP Morgan Asian dollar index (spot)	0.28%	1.05%	-4.72%	-3.78%

The rebound in equities remains a fragile affair as, at the time of this writing, it could be undone by trade-related policy errors. However, barring such a mishap, this appears to be a tradeable bottom moving into 2019.

	Equity Total Returns			
	Five-Days	One Month	Six Months	One Year
MSCI World Free	3.40%	0.45%	-2.22%	1.07%
North America	4.70%	3.01%	1.53%	5.45%
Latin America	1.69%	-1.65%	2.72%	-1.26%
Emerging Market Free	3.00%	0.19%	-10.15%	-8.05%
EAFE	1.54%	-0.76%	-7.64%	-6.19%
Pacific	1.18%	1.21%	-7.33%	-5.43%
Eurozone	0.90%	-1.76%	-10.64%	-10.39%

CTAs and global hedge funds gained, both of which are to be expected now in a restoration of risk-seeking behavior. However, macro-oriented hedge funds lost money, suggesting they were positioned for a continued risk-off environment.

	CTA/Hedge Fund Returns			
	Five-Days	One Month	Six Months	One Year
SocGen CTA	0.54%	-1.39%	-3.28%	-7.66%
SocGen Trend	0.31%	-0.97%	-2.50%	-6.59%
SocGen Short-Term	-0.15%	-1.33%	-3.08%	-1.53%
HFR Global Hedge Fund	0.11%	-0.02%	-4.08%	-4.22%
HFR Macro/CTA	-0.31%	-0.25%	-2.17%	-3.69%
HFR Macro:	-0.41%	0.18%	-2.79%	-4.14%
Sytematic Diversified CTA				