

The Macro Environment For Financial Markets

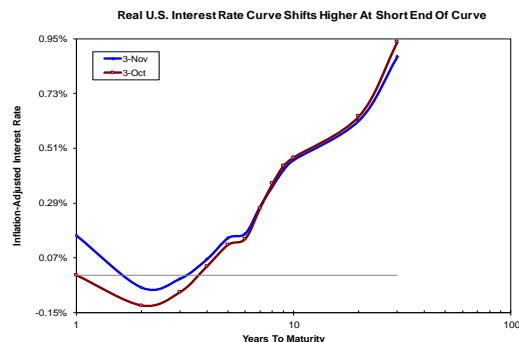
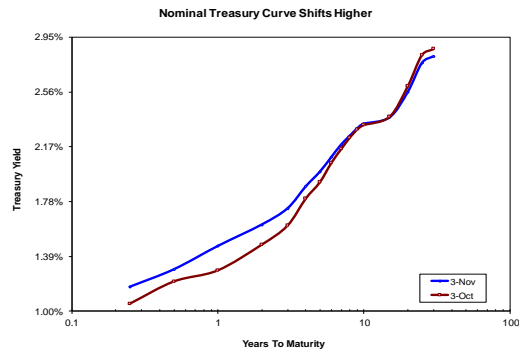
Record highs in U.S. equities and a record low in the VIX are consistent with a virtual sellers' strike in risky assets. If we add collapsing corporate credit spreads and dovish interpretations of monetary policy in the U.K. to the mix, we have the makings of a continued bull market by default. The replacement of Janet Yellen by Jerome Powell caused nary a stir, and the long-awaited tax plan ruffled few feathers. Savor this period of easy gains; one day it too shall pass. The causal chain now is:

1. The market has priced 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 starting to accept rollover risk rather than term-out borrowing in the bond market;
5. Swap spreads are inverting bullishy; and
6. CDS costs remain in their downtrend.

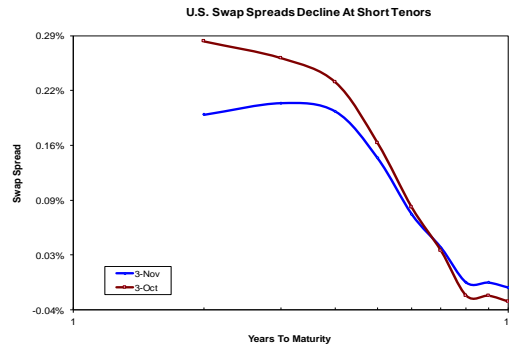
Key Market Indications

The breach of support at 2.40% in the ten-year last all of one week before lenders realized existing holders are not going to liquidate their portfolios. Such is not the case at the short end of the yield curve, however. The secular flattening trend will be four years old in three weeks; do not expect this event to generate headlines anywhere.

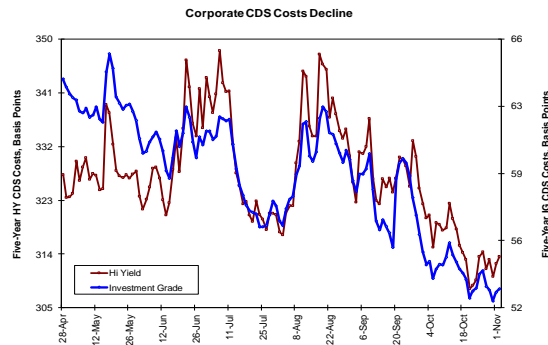
The pseudo-real yield curve shifted higher for maturities six years and less and is negative over the 2-3 year segment.



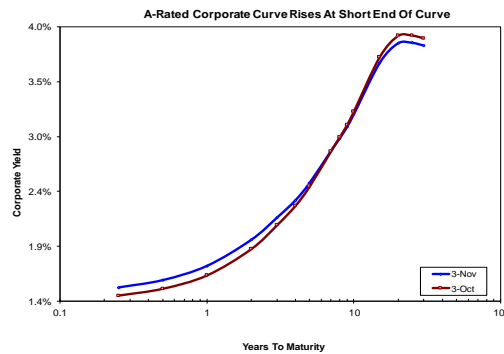
Swap spreads, which rise when floating-rate borrowers want to fix their payments, rose slightly at the long end of the yield curve but declined at the short end. This is bullish for corporate credit and for equities.



CDS costs declined slightly and is keeping corporate credit quite expensive. The reward for moving into corporate bonds in a dissipating bull market for UST is becoming rather minimal.



The A-rated corporate yield rose slightly at the short end of the yield curve over the past month. This remains a bull market with limited upside potential.



Market Structure

The main Bloomberg index along with Industrial Metals, Petroleum and Livestock are in structural uptrends, while Grains and Natural Gas remain in downtrends. The dollar index is the only financial within a trending structure.

	N-Day Speed	Market Structure	Trend Oscillator	HLC Volatility	Daily Trend Rate Nov. 6 - 10
BBERG	28	Trending	0.270	6.5%	0.13%
BBERG Grain	29	Trending	-0.051	11.1%	-0.07%
BBERG Ind. Metl	29	Trending	0.163	15.2%	0.28%
BBERG Pre. Metl	19	Transitional	-0.129	8.6%	
BBERG Softs	14	Transitional	0.013	15.0%	
BBERG Nat. Gas	29	Trending	-0.167	19.7%	-0.03%
BBERG Petroleum	25	Trending	0.351	17.3%	0.65%
BBERG Livestock	29	Trending	0.484	10.8%	0.19%
Dollar Index	29	Trending	0.228	5.5%	0.09%
S&P 500 Index	8	Sideways	0.089	5.9%	
EAFE Index	11	Transitional	0.082	5.3%	
EM Index	12	Transitional	0.101	7.3%	
Ten-year UST (price)	17	Transitional	0.060	3.6%	

Performance Measures

Markets finally are accepting a bull market in Petroleum even though this means granting OPEC some measure of credibility. The thinness of markets in the post-crisis era was accentuated by some outsized gains in the livestock markets and in nickel. We are shifting back into an uptrend in physical commodities created by rising economic activity and demand. This is the healthiest kind.

	Commodity Total Returns			
	Five-Days	One Month	Six Months	One Year
Bloomberg Index	1.20%	3.85%	4.30%	4.77%
Grains Sub-Index	-0.07%	-0.58%	-9.00%	-9.61%
Corn	-0.12%	-0.26%	-11.81%	-10.73%
Soybeans	0.05%	2.28%	-0.04%	-4.37%
Wheat	-0.33%	-4.88%	-13.91%	-13.97%
Energy Sub-Index	2.23%	7.17%	9.01%	9.75%
Petroleum Sub-Index	3.00%	10.70%	20.42%	19.44%
WTI	3.29%	9.67%	13.34%	13.02%
Brent	3.25%	11.38%	20.64%	23.85%
ULSD	1.27%	8.20%	26.29%	22.70%
Gasoline	3.77%	13.97%	27.61%	19.07%
Natural Gas	-0.15%	-2.82%	-18.11%	-14.63%
Precious Metals Sub-Index	0.00%	0.06%	1.30%	-5.24%
Gold	-0.18%	-0.33%	1.31%	-3.44%
Silver	0.51%	1.20%	1.31%	-10.00%
Industrial Metals Sub-Index	1.95%	5.41%	21.65%	29.29%
Copper	0.47%	5.29%	21.80%	36.06%
Aluminum	0.69%	2.38%	12.27%	23.61%
Nickel	9.86%	19.82%	36.95%	19.65%
Zinc	1.39%	-0.53%	26.17%	29.65%
Softs Sub-Index	-1.26%	1.04%	-12.00%	-27.45%
Coffee	-2.07%	-1.10%	-13.11%	-31.54%
Sugar	-1.69%	2.52%	-12.89%	-35.79%
Cotton	0.78%	1.87%	-8.66%	1.37%
Livestock Sub-Index	3.92%	8.89%	1.31%	30.23%
Cattle	5.38%	10.90%	-3.15%	32.02%
Hogs	1.03%	4.97%	8.74%	26.40%

Even though current conditions favor the USD, markets are uncertain whether incoming Federal Reserve chairman Powell will adhere to the tightening schedule set by Yellen. This is wise. While we are well past the era of competitive devaluations, we remain in an era where no one wants their currency to be the strongest in the world.

	Currency Returns			
	Five-Days	One Month	Six Months	One Year
Euro	0.00%	-1.16%	6.63%	4.53%
Chinese yuan	0.17%	0.21%	3.91%	1.90%
Japanese yen	-0.35%	-1.07%	-1.16%	-9.72%
British pound	-0.39%	-1.21%	1.63%	4.94%
Swiss franc	-0.26%	-2.70%	-0.59%	-2.68%
Canadian dollar	0.34%	-2.17%	7.57%	4.96%
Australian dollar	-0.35%	-2.37%	3.06%	-0.42%
Swedish krona	-0.73%	-3.51%	4.94%	6.35%
Norwegian krone	-0.35%	-2.38%	5.82%	0.12%
New Zealand dollar	0.42%	-3.53%	0.42%	-5.86%
Indian rupee	0.78%	1.47%	-0.62%	3.41%
Brazilian real	-2.36%	-5.13%	-4.45%	-2.17%
Mexican peso	-0.37%	-5.17%	-1.77%	-0.15%
Chilean peso	0.18%	-0.18%	5.49%	2.72%
Colombian peso	-0.92%	-2.78%	-3.54%	1.14%
Bloomberg-JP Morgan Asian dollar index (spot)	0.24%	0.60%	2.08%	1.61%

Even though the Latin American index declined, gains in Asia allowed the EM index to advance along with the EAFE and the U.S. There is little to suggest an imminent downturn.

	Equity Total Returns			
	Five-Days	One Month	Six Months	One Year
MSCI World Free	0.56%	1.90%	9.96%	25.74%
North America	0.35%	2.06%	9.57%	25.95%
Latin America	-2.72%	-7.19%	5.94%	15.59%
Emerging Market Free	1.46%	2.72%	16.18%	30.61%
EAFE	0.92%	1.63%	10.63%	25.37%
Pacific	0.90%	4.21%	11.84%	19.93%
Eurozone	1.28%	1.27%	12.13%	33.90%

Not only did CTAs have a good week, the Newedge index is now positive over a one-year timeframe. Hedge funds also had a positive week, something almost synonymous with gains in equities.

	CTA/Hedge Fund Returns			
	Five-Days	One Month	Six Months	One Year
Newedge CTA	2.62%	6.43%	2.45%	2.20%
Newedge Trend	2.13%	5.03%	1.95%	1.97%
Newedge Short-Term	1.81%	3.20%	1.53%	-2.45%
HFR Global Hedge Fund	0.30%	0.57%	2.88%	7.59%
HFR Macro/CTA	0.43%	2.24%	2.79%	2.65%
HFR Macro	1.30%	4.32%	3.77%	3.58%
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.