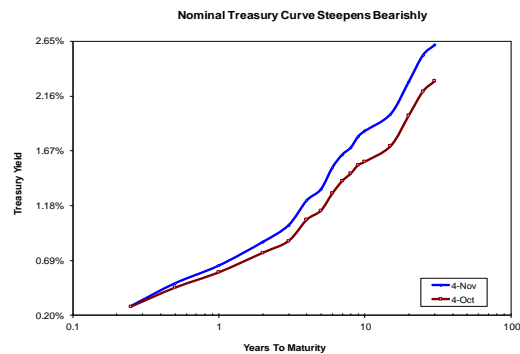


If you want neat elections, move to North Korea. The shift of the U.S. political picture to one where gridlock likely will prevail for at least two years should not alarm global investors, but it has, and there is no point being right when the market is wrong. The good news here is the less the federal government does, the less it does wrong. The bad news is someone new will feel obligated to do at least one wrong thing as that is part of the job description. The causal chain now is:

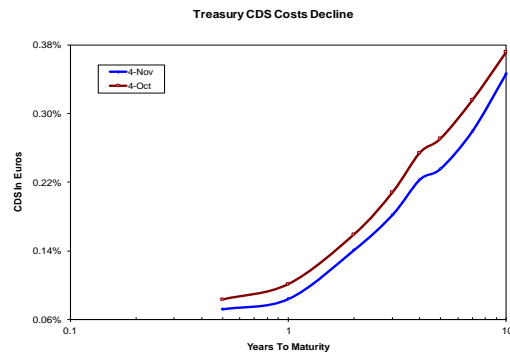
1. The market is pricing in a December increase in U.S. short-term rates;
2. Inflationary expectations are rising globally, even though much of this is a short-term herding trade;
3. The U.S. yield curve retains its long-term bias toward flattening despite a short-term bearish steepening;
4. Short-term borrowers are 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

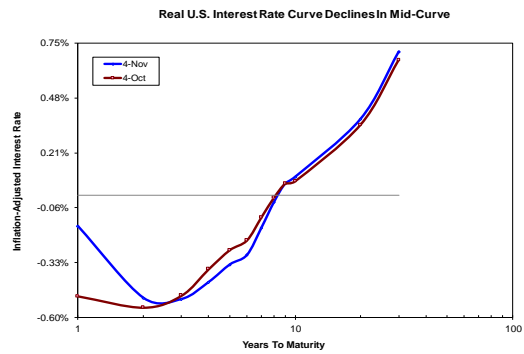
Suppose they gave an FOMC meeting and no one cared. This week's gathering came close to that description. Of greater note is the rise in long-term yields and inflation expectations outside of the U.S. Those will not force UST into a protracted bear market; they will, however, ensure the July lows may last for a very long time.



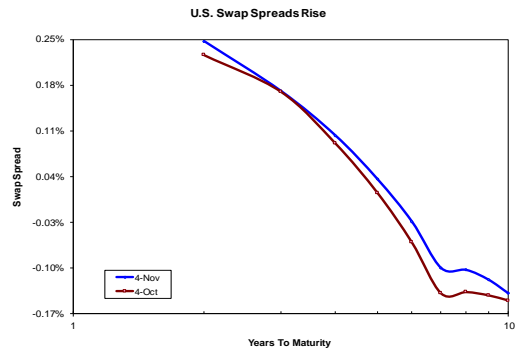
CDS costs on UST shifted lower. This is one of the few markets that does not appear to be treating the U.S. political situation as one of increasing risk.



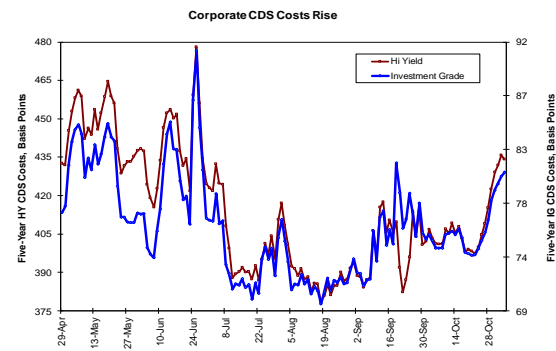
The pseudo-real yield curve rose at the short end of the yield curve over the past month. Precious metals have been able to weather this by virtue of a haven bid. As nominal long-term rates and inflation expectations have been rising at the same rate, implied real long-term rates have changed little.



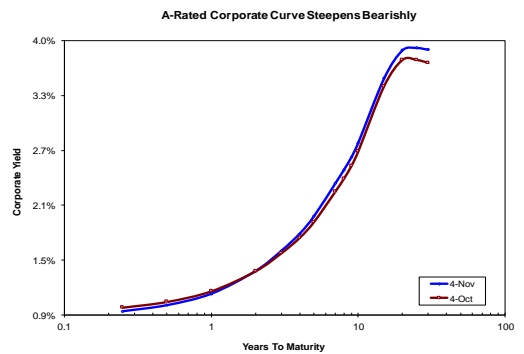
Swap spreads, which rise when floating-rate borrowers want to fix their payments, continue to rise at the long end of the yield curve. The shift has been relatively minor and muted and has yet to produce a significant upturn in corporate bond yields.



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

The decline in crude oil pushed the main Bloomberg index into a downtrend. Grains, Softs and Industrial Metals all are in structural uptrends. All of the stock indices and ten-year UST are in downtrends amongst the financials.

	N-Day Speed	Market Structure	Trend Oscillator	HLC Volatility	Daily Trend Rate Nov. 7 - 11
BBERG	29	Trending	-0.246	9.2%	-0.61%
BBERG Grain	27	Trending	0.025	16.5%	0.17%
BBERG Ind. Metl	29	Trending	0.267	12.5%	0.07%
BBERG Pre. Metl	29	Trending	0.157	13.2%	
BBERG Softs	20	Trending	0.004	13.9%	0.11%
BBERG Nat. Gas	29	Trending	-0.485	26.7%	-1.08%
BBERG Petroleum	29	Trending	-0.389	23.5%	-1.75%
BBERG Livestock	22	Trending	0.177	14.3%	0.42%
Dollar Index	29	Trending	-0.054	5.5%	
S&P 500 Index	29	Trending	-0.299	8.7%	-0.16%
EAFE Index	29	Trending	-0.241	9.7%	-0.32%
EM Index	29	Trending	-0.361	8.3%	-0.41%
Ten-year UST (price)	29	Trending	-0.078	4.2%	-0.77%

Performance Measures

Did the fundamentals of the Petroleum index decline by 9% and those of Natural Gas by 10% in one week? Maybe not, but their price did, and that is what matters. So much, again, for the notion crude oil rallies when the USD declines and vice-versa. These are not economic events, as evidenced by continued strength in the Industrial Metals.

	Commodity Total Returns			
	Five-Days	One Month	Six Months	One Year
Bloomberg Index	-3.04%	-2.15%	0.08%	-3.45%
Grains Sub-Index	-1.26%	1.72%	-9.92%	-10.96%
Corn	-1.75%	0.17%	-10.97%	-15.56%
Soybeans	-2.09%	2.06%	-3.11%	11.53%
Wheat	1.41%	4.77%	-17.96%	-28.62%
Energy Sub-Index	-9.26%	-10.13%	-2.41%	-22.45%
Petroleum Sub-Index	-8.98%	-10.15%	-3.91%	-24.20%
WTI	-9.48%	-10.11%	-6.83%	-31.96%
Brent	-10.06%	-11.35%	-3.96%	-22.43%
ULSD	-8.07%	-8.81%	1.51%	-18.72%
Gasoline	-6.33%	-8.90%	-2.63%	-19.62%
Natural Gas	-9.99%	-9.71%	3.31%	-20.22%
Precious Metals Sub-Index	2.48%	2.95%	2.79%	18.23%
Gold	2.18%	2.77%	1.76%	17.15%
Silver	3.24%	3.38%	5.41%	20.42%
Industrial Metals Sub-Index	1.76%	3.65%	8.49%	8.70%
Copper	3.27%	4.55%	2.97%	-3.87%
Aluminum	0.12%	3.08%	4.16%	11.72%
Nickel	0.25%	3.69%	9.85%	4.40%
Zinc	2.02%	2.54%	28.76%	42.99%
Softs Sub-Index	-0.49%	0.46%	26.43%	32.52%
Coffee	-3.54%	16.24%	37.78%	28.72%
Sugar	-1.93%	-6.55%	26.35%	42.36%
Cotton	-3.23%	-1.61%	8.95%	10.18%
Livestock Sub-Index	-1.49%	2.22%	-18.23%	-20.06%
Cattle	-1.55%	0.08%	-10.45%	-18.75%
Hogs	-1.38%	6.12%	-28.13%	-21.62%

The USD turned lower against all of the majors except for the CAD and gained against all of the Latin American currencies. Much of this has to do with global investors reducing their exposure to U.S. assets prior to the election.

	Currency Returns			
	Five-Days	One Month	Six Months	One Year
Euro	1.42%	-0.56%	-3.01%	2.53%
Chinese yuan	0.33%	-1.25%	-3.65%	-6.21%
Japanese yen	1.57%	-0.21%	3.77%	17.89%
British pound	2.72%	-1.66%	-13.65%	-18.65%
Swiss franc	2.03%	1.09%	-1.12%	2.58%
Canadian dollar	-0.04%	-1.58%	-3.99%	-1.90%
Australian dollar	0.97%	0.70%	2.90%	7.33%
Swedish krona	0.72%	-3.86%	-9.81%	-3.57%
Norwegian krone	1.29%	-1.85%	-0.07%	5.76%
New Zealand dollar	2.28%	1.61%	6.48%	11.10%
Indian rupee	0.11%	-0.37%	-0.23%	-1.83%
Brazilian real	-1.10%	0.67%	9.66%	17.42%
Mexican peso	-0.22%	1.57%	-6.45%	-13.09%
Chilean peso	-1.26%	0.89%	1.90%	5.17%
Colombian peso	-2.36%	-2.75%	-3.45%	-7.35%
Bloomberg-JP Morgan Asian dollar index (spot)	0.19%	-0.92%	-1.38%	-2.32%

Expectations for rising short-term interest rates, declining crude oil prices, high valuations and U.S. election event risk led equity investors everywhere to reduce risk. You can always buy again, and they will.

	Equity Total Returns			
	Five-Days	One Month	Six Months	One Year
MSCI World Free	-1.78%	-3.23%	2.31%	-0.52%
North America	-1.92%	-2.92%	3.02%	1.45%
Latin America	-5.16%	1.82%	13.81%	22.23%
Emerging Market Free	-2.57%	-3.81%	10.12%	4.16%
EAFE	-1.55%	-3.75%	1.13%	-3.70%
Pacific	-1.05%	-1.44%	7.12%	5.07%
Eurozone	-2.29%	-2.91%	0.20%	-6.46%

Both CTAs and hedge funds lost money for another week as both stocks and bonds declined simultaneously, the dollar retreated and the energy market downturn accelerated.

	CTA/Hedge Fund Returns			
	Five-Days	One Month	Six Months	One Year
Newedge CTA	-2.44%	-5.51%	-6.46%	-5.62%
Newedge Trend	-1.50%	-3.46%	-4.38%	-1.09%
Newedge Short-Term	-1.54%	-2.58%	-7.11%	-2.64%
HFR Global Hedge Fund	-1.02%	-1.50%	1.76%	-2.48%
HFR Macro/CTA	-1.70%	-2.82%	-3.93%	-3.58%
HFR Macro:	-1.99%	-5.06%	-4.91%	-1.87%
Systematic Diversified CTA				