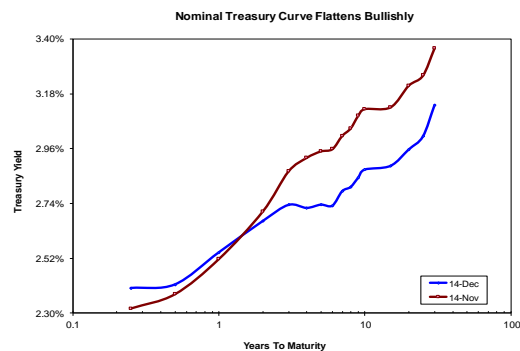


The European Central Bank’s impending exit from QE in the face of fragile financial and economic conditions there is a bearish indicator for financial markets. While the program was ineffective macroeconomically, it was a powerful lynchpin behind the TINA argument in recent years. That the Federal Reserve is even considering one more rate hike in this environment is startling. Those expecting a bullish reversal in 2019 are going to be disappointed. The causal chain now is:

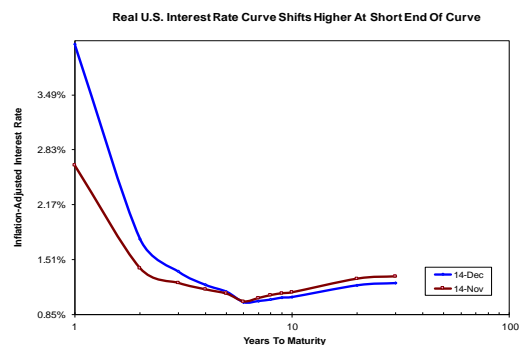
1. The market is pricing in a December rate hike, but is uncertain after that;
2. The yield curve has paused in its bullish flattening;
3. Inflationary expectations continue to decline;
4. Short-term borrowers are accepting rollover risk rather than term-out borrowing in the bond market;
5. Swap spreads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

Key Market Indications

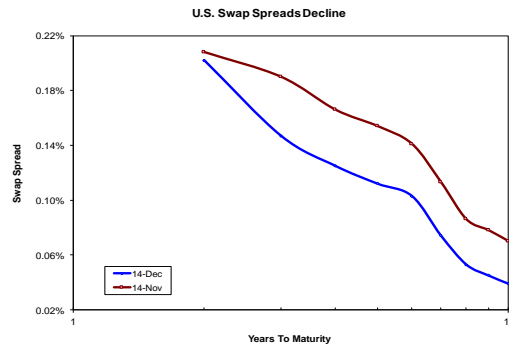
The long end of the UST paused in its rally despite declining inflation expectations, slower growth and a general risk-off environment. A market unable to rally in a supportive environment does not make for a good long position.



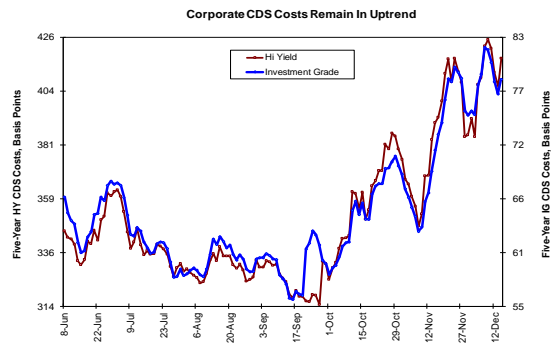
The pseudo-real yield curve continued its shift higher at the short end. They are starting to decline at the long end of the yield curve.



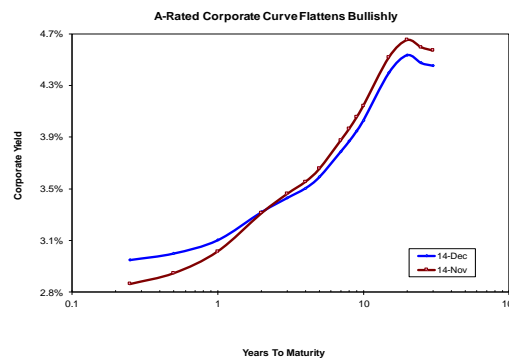
Swap spreads, which rise when floating-rate borrowers want to fix their payments, declined across the maturity spectrum as the end of rate hikes appears in sight and as inflation expectations continue to decline.



CDS costs are rising as part of the general risk-off trade. Prospects for slower growth and for tighter monetary conditions will exacerbate this trend.



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. Borrowing costs are declining at the long end as the UST market rallies.



Market Structure

Grains, Precious Metals and Livestock are in structural uptrends amongst the physical commodity markets. All of the stock indices are in structural downtrends, while ten-year UST moved into a bullish consolidation.

	N-Day Speed	Market Structure	Trend Oscillator	HLC Volatility	Daily Trend Rate Dec. 17 - 21
BBERG	11	Transitional	-0.035	11.1%	
BBERG Grain	29	Trending	0.140	11.3%	0.51%
BBERG Ind. Metl	18	Transitional	-0.019	13.8%	
BBERG Pre. Metl	28	Trending	0.110	8.2%	0.12%
BBERG Softs	13	Transitional	-0.088	18.1%	
BBERG Nat. Gas	14	Transitional	-0.013	20.5%	
BBERG Petroleum	9	Sideways	-0.023	38.5%	
BBERG Livestock	29	Trending	0.141	12.1%	0.55%
Dollar Index	19	Transitional	0.079	6.1%	
S&P 500 Index	29	Trending	-0.239	17.1%	-0.15%
EAFE Index	27	Trending	-0.208	12.9%	-0.34%
EM Index	29	Trending	-0.096	12.6%	-0.11%
Ten-year UST (price)	5	Sideways	0.001	3.2%	

Performance Measures

All index groups turned lower on the week, led by the recently strong Natural Gas index. The need for commodity exporters for revenue is keeping supplies high and the slow-growth story out of China is keeping demand low. This remains a secular bear market in physical commodities.

	Commodity Total Returns			
	Five-Days	One Month	Six Months	One Year
Bloomberg Index	-2.62%	-2.98%	-6.33%	-1.44%
Grains Sub-Index	-0.52%	2.23%	-3.23%	-2.04%
Corn	-0.15%	2.58%	-1.93%	-1.25%
Soybeans	-1.68%	1.15%	-3.66%	-11.42%
Wheat	-0.19%	3.05%	-1.54%	11.27%
Energy Sub-Index	-6.45%	-9.12%	-4.40%	9.46%
Petroleum Sub-Index	-2.41%	-9.55%	-16.71%	-3.73%
WTI	-2.37%	-9.26%	-17.82%	-4.98%
Brent	-2.30%	-9.97%	-15.84%	1.92%
ULSD	-2.09%	-10.53%	-11.36%	-0.72%
Gasoline	-3.08%	-8.05%	-21.68%	-14.85%
Natural Gas	-13.01%	-8.89%	26.15%	40.57%
Precious Metals Sub-Index	-0.74%	1.17%	-5.24%	-3.78%
Gold	-0.85%	1.19%	-3.19%	-2.01%
Silver	-0.36%	1.07%	-11.96%	-9.76%
Industrial Metals Sub-Index	-0.48%	-1.69%	-15.69%	-10.29%
Copper	0.16%	-1.51%	-12.99%	-12.98%
Aluminum	-1.84%	-1.17%	-12.47%	-4.87%
Nickel	1.49%	-2.53%	-27.15%	-4.49%
Zinc	-1.84%	-2.12%	-13.90%	-16.09%
Softs Sub-Index	-1.48%	-3.64%	-11.69%	-13.13%
Coffee	-1.73%	-11.92%	-17.23%	-22.91%
Sugar	-1.66%	-0.13%	-3.17%	-13.78%
Cotton	-0.74%	1.86%	-12.38%	5.78%
Livestock Sub-Index	-1.00%	0.68%	4.68%	0.92%
Cattle	0.77%	2.42%	7.79%	1.74%
Hogs	-4.93%	-3.19%	0.00%	-1.43%

Only the MXN managed to gain against the USD this week. As books are going to be closed for the end of the year, the strong USD will continue into January.

	Currency Returns			
	Five-Days	One Month	Six Months	One Year
Euro	-0.64%	-0.04%	-2.26%	-4.01%
Chinese yuan	-0.48%	0.62%	-7.32%	-4.32%
Japanese yen	-0.62%	0.21%	-2.43%	-0.88%
British pound	-1.12%	-3.15%	-5.12%	-6.31%
Swiss franc	-0.60%	0.89%	-0.10%	-0.89%
Canadian dollar	-0.46%	-1.06%	-2.08%	-4.39%
Australian dollar	-0.50%	-0.83%	-4.09%	-6.44%
Swedish krona	-0.16%	0.28%	-3.50%	-6.86%
Norwegian krone	-1.28%	-1.24%	-5.56%	-3.69%
New Zealand dollar	-1.01%	-0.03%	-2.58%	-2.66%
Indian rupee	-1.51%	0.58%	-5.93%	-10.50%
Brazilian real	-0.14%	-3.29%	-2.73%	-14.78%
Mexican peso	0.11%	0.86%	3.17%	-5.43%
Chilean peso	-1.46%	-0.33%	-7.19%	-6.80%
Colombian peso	-1.33%	0.18%	-10.52%	-6.24%
Bloomberg-JP Morgan Asian dollar index (spot)	-0.31%	0.41%	-4.51%	-3.96%

It has been said bull markets are killed more often than they die, and this is true from both a monetary policy and a trade-related standpoint now. Slower growth in China has consequences, and none of them are bullish.

	Equity Total Returns			
	Five-Days	One Month	Six Months	One Year
MSCI World Free	-1.13%	-4.25%	-8.05%	-4.55%
North America	-1.26%	-3.53%	-6.30%	-0.67%
Latin America	-1.54%	-1.07%	4.19%	-2.66%
Emerging Market Free	-0.95%	-1.40%	-11.32%	-10.66%
EAFE	-0.89%	-3.24%	-11.44%	-9.84%
Pacific	-1.85%	-2.36%	-10.48%	-8.19%
Eurozone	0.16%	-3.80%	-14.10%	-13.09%

Only macro hedge funds managed to gain on the week, which is interesting considering the drumbeat of stories about fund closures. Everything else lost money once again.

	CTA/Hedge Fund Returns			
	Five-Days	One Month	Six Months	One Year
SocGen CTA	-0.88%	-1.47%	-4.57%	-9.11%
SocGen Trend	-0.55%	-0.67%	-2.46%	-7.19%
SocGen Short-Term	-0.46%	0.08%	-1.15%	-0.90%
HFR Global Hedge Fund	-0.40%	-1.31%	-6.06%	-5.37%
HFR Macro/CTA	-0.23%	-0.68%	-3.24%	-4.00%
HFR Macro:	0.12%	-0.80%	-3.96%	-5.67%
Systematic Diversified CTA				