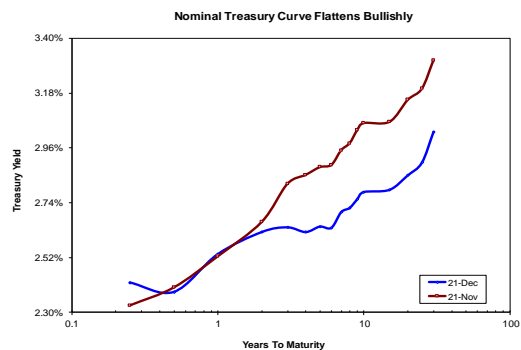


I commented last week that the Federal Reserve even considering one more rate hike in this environment is startling and those expecting a bullish reversal in 2019 were going to be disappointed. This past week's nonstop assault on earnings expectations and on political stability globally are going to make for a volatile start to 2019. Bear market rallies can be vicious, but it will be important not to chase the first one. The causal chain now is:

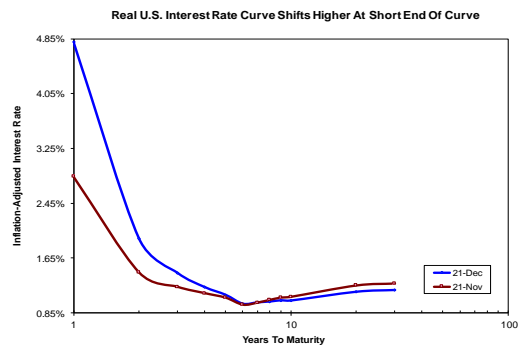
1. The market is uncertain whether a rate hike will occur in the first half of 2019;
2. The yield curve has paused in its bullish flattening as two-year yields are turning lower;
3. Inflationary expectations continue to decline;
4. Short-term borrowers are accepting rollover risk rather than term-out borrowing in the bond market;
5. Swap spreads remain inverted; and
6. CDS costs remain in their uptrend.

Key Market Indications

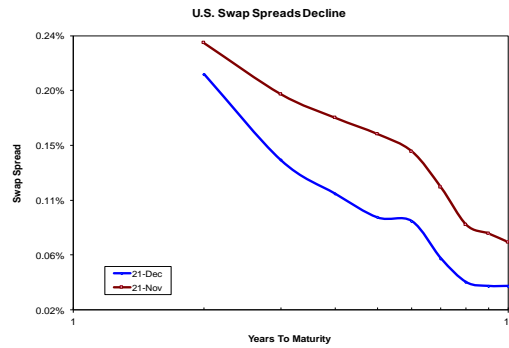
The long end of the UST yield curve continued to rally on a haven bid, but this remains a grudging rally. Both gold and haven currencies such as the JPY have responded more strongly to the equity market selloff.



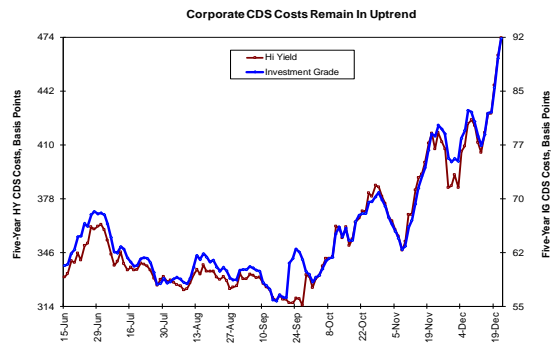
The pseudo-real yield curve continued its shift higher at the short end. They are starting to decline at the long end of the yield curve.



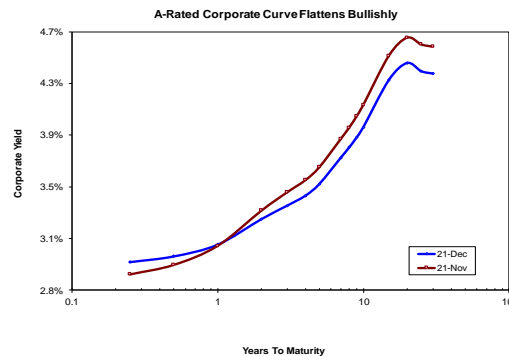
Swap spreads, which rise when floating-rate borrowers want to fix their payments, declined across the maturity spectrum as the future of rate hikes is uncertain and as inflation expectations continue to decline.



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 collapse in crude oil prices has been a challenge for the high-yield index.



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 remain in structural uptrends amongst the physical commodity markets. All of the stock indices are in structural downtrends, while ten-year UST returned to a structural uptrend.

	N-Day Speed	Market Structure	Trend Oscillator	HLC Volatility	Daily Trend Rate Dec. 24 - 28
BBerg	15	Transitional	-0.254	10.4%	
BBerg Grain	29	Trending	-0.046	10.2%	0.51%
BBerg Ind. Metl	18	Transitional	-0.160	12.3%	
BBerg Pre. Metl	29	Trending	0.198	8.3%	0.12%
BBerg Softs	18	Transitional	-0.234	18.5%	
BBerg Nat. Gas	15	Transitional	0.048	21.5%	
BBerg Petroleum	15	Transitional	-0.247	38.3%	
BBerg Livestock	28	Trending	0.054	11.4%	0.55%
Dollar Index	22	Trending	-0.007	6.0%	
S&P 500 Index	29	Trending	-0.475	21.0%	-0.15%
EAFE Index	28	Trending	-0.342	12.9%	-0.34%
EM Index	29	Trending	-0.189	11.9%	-0.11%
Ten-year UST (price)	29	Trending	0.328	4.2%	0.13%

Performance Measures

Only Precious Metals gained on the week on a haven bid. All other subindices declined sharply, led by crude oil. 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	-3.12%	-3.24%	-8.89%	-6.42%
Grains Sub-Index	-2.05%	1.73%	-3.51%	-4.36%
Corn	-1.58%	2.35%	-2.40%	-4.07%
Soybeans	-1.71%	0.65%	-3.86%	-11.34%
Wheat	-2.97%	1.52%	-2.75%	6.28%
Energy Sub-Index	-6.97%	-9.58%	-12.68%	-0.88%
Petroleum Sub-Index	-9.86%	-8.16%	-27.36%	-16.00%
WTI	-11.30%	-9.56%	-30.61%	-17.61%
Brent	-10.39%	-8.49%	-26.85%	-11.63%
ULSD	-6.49%	-7.58%	-18.68%	-10.24%
Gasoline	-9.38%	-5.08%	-30.46%	-26.57%
Natural Gas	-1.68%	-11.77%	26.96%	37.54%
Precious Metals Sub-Index	1.20%	2.54%	-3.66%	-4.43%
Gold	1.39%	2.55%	-1.28%	-2.33%
Silver	0.49%	2.52%	-11.47%	-11.44%
Industrial Metals Sub-Index	-2.02%	-2.40%	-15.28%	-15.54%
Copper	-3.16%	-3.82%	-12.54%	-18.46%
Aluminum	-0.75%	-2.47%	-12.03%	-11.07%
Nickel	-1.85%	-0.43%	-28.89%	-10.50%
Zinc	-1.37%	-0.58%	-10.43%	-18.86%
Softs Sub-Index	-3.70%	-6.86%	-11.51%	-19.82%
Coffee	-2.45%	-9.97%	-18.87%	-24.60%
Sugar	-2.41%	-0.86%	-5.99%	-21.29%
Cotton	-8.02%	-5.06%	-15.14%	-5.17%
Livestock Sub-Index	-1.34%	-1.88%	3.97%	0.13%
Cattle	0.29%	1.66%	6.92%	4.12%
Hogs	-5.19%	-9.71%	-1.61%	-8.50%

In what is normally a quiet week, the USD turned in a mixed performance, declining against havens such as the CHF and JPY, but rising against commodity-linked currencies such as the CAD and AUD. The plunge in crude oil affected the COP and NOK negatively and the INR positively.

	Currency Returns			
	Five-Days	One Month	Six Months	One Year
Euro	0.58%	-0.11%	-2.00%	-4.23%
Chinese yuan	0.02%	0.30%	-5.98%	-4.66%
Japanese yen	1.95%	1.65%	-1.11%	1.90%
British pound	0.49%	-1.04%	-4.49%	-5.54%
Swiss franc	0.42%	0.11%	-0.15%	-0.53%
Canadian dollar	-1.60%	-2.73%	-2.11%	-6.34%
Australian dollar	-1.84%	-3.07%	-4.59%	-8.60%
Swedish krona	0.20%	0.04%	-1.65%	-7.34%
Norwegian krone	-1.70%	-2.69%	-7.28%	-4.68%
New Zealand dollar	-1.02%	-1.55%	-2.05%	-4.12%
Indian rupee	2.45%	1.83%	-3.12%	-8.71%
Brazilian real	0.35%	-2.63%	-3.35%	-15.21%
Mexican peso	1.50%	1.56%	1.86%	-2.38%
Chilean peso	-1.05%	-3.58%	-7.53%	-10.31%
Colombian peso	-2.90%	-3.09%	-10.57%	-9.94%
Bloomberg-JP Morgan Asian dollar index (spot)	0.03%	0.34%	-3.40%	-4.20%

The axiom all news is bearish in a bear market was proven all too true this past week. As none of the problems affecting equities can be cured instantly, further negative action can be expected.

	Equity Total Returns			
	Five-Days	One Month	Six Months	One Year
MSCI World Free	-5.51%	-6.96%	-12.35%	-10.44%
North America	-7.03%	-8.71%	-11.85%	-8.84%
Latin America	-0.96%	-2.91%	6.25%	-6.63%
Emerging Market Free	-1.21%	-0.89%	-10.36%	-13.54%
EAFE	-2.22%	-4.35%	-12.58%	-12.94%
Pacific	-3.55%	-4.75%	-12.69%	-12.34%
Eurozone	-2.17%	-4.93%	-13.45%	-16.08%

Only global hedge funds declined on the week as both CTAs and macro-oriented hedge funds found themselves on the right side of the bearish, risk-off conditions.

	CTA/Hedge Fund Returns			
	Five-Days	One Month	Six Months	One Year
SocGen CTA	1.80%	1.00%	-3.16%	-7.84%
SocGen Trend	1.64%	1.41%	-1.10%	-5.92%
SocGen Short-Term	0.65%	0.99%	-0.44%	-0.08%
HFR Global Hedge Fund	-0.96%	-1.70%	-6.70%	-6.82%
HFR Macro/CTA	0.91%	0.88%	-1.59%	-2.83%
HFR Macro:	1.72%	1.61%	-1.36%	-4.19%
Systematic Diversified CTA				