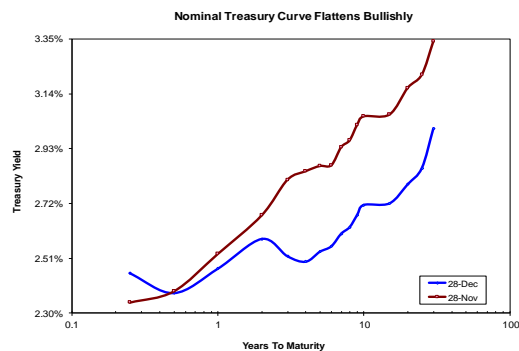


I commented last week bear market rallies can be vicious, but I was impressed nevertheless by the price action in the U.S. Let's remember all of the causes of the fourth-quarter decline remain intact. Rallies in UST, the decline in short-term rates, the pricing out of rate hikes, a weaker USD and declining inflation expectations all reflect short-term market conditions more than underlying economic trends. This remains a risk-off environment until further notice. The causal chain now is:

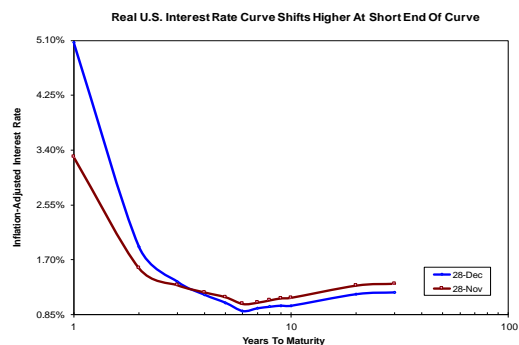
1. The market has priced out a 2019 rate hike;
2. The yield curve has entered a bullish steepening as two-year yields have declined;
3. Inflationary expectations continue to decline;
4. Short-term borrowers are accepting rollover risk rather than term-out borrowing in the bond market;
5. Swap spreads remain inverted; and
6. CDS costs remain in their uptrend.

Key Market Indications

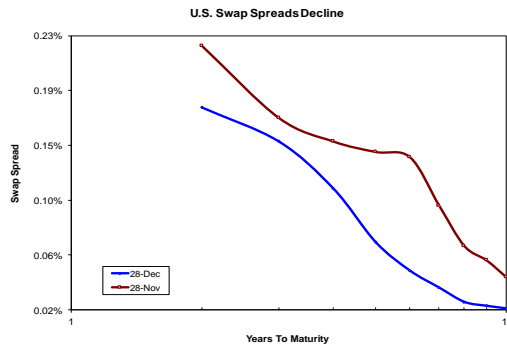
The long end of the UST yield curve continued to rally on a haven bid. This has been accompanied by both a decline in short-term rates and a bullish steepening of the yield curve. Inflation expectations continue their sharp decline.



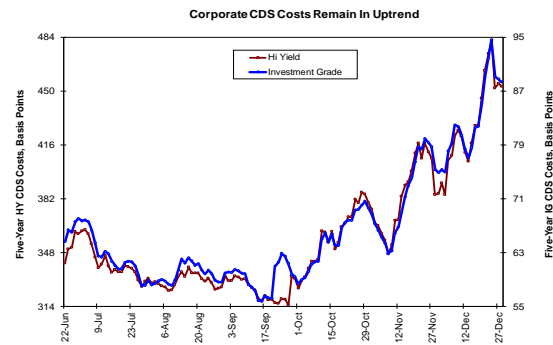
The pseudo-real yield curve continued both its shift higher at the short end and its shift lower at the long end of the yield curve.



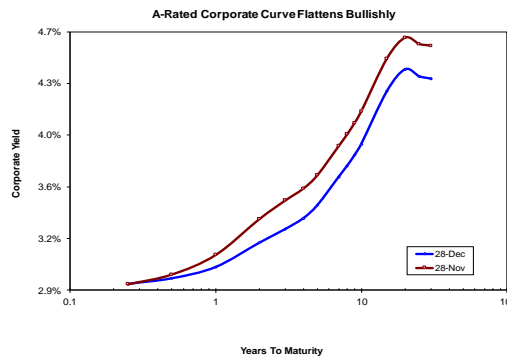
Swap spreads, which rise when floating-rate borrowers want to fix their payments, declined across the maturity spectrum as the future of rate hikes is uncertain and as inflation expectations continue to decline.



CDS costs are rising as part of the general risk-off trade. Prospects for slower growth and for decreased corporate profits 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 continues to flatten bullishy at UST yields are declining faster than credit spreads are rising. This remains a derivative rally dependent on continued high levels of uncertainty.



Market Structure

Grains, Precious Metals and Livestock remain in structural uptrends amongst the physical commodity markets, while Industrial Metals and Softs are in downtrends. The dollar index joined the stock indices in a structural downtrend, while ten-year UST remain in a structural uptrend.

	N-Day Speed	Market Structure	Trend Oscillator	HLC Volatility	Daily Trend Rate Dec. 31 - Jan. 4
BBERG	19	Transitional	-0.216	10.7%	
BBERG Grain	25	Trending	-0.111	10.1%	0.51%
BBERG Ind. Metl	29	Trending	-0.240	12.6%	-0.29%
BBERG Pre. Metl	29	Trending	0.409	8.4%	0.12%
BBERG Softs	29	Trending	-0.227	17.8%	-0.27%
BBERG Nat. Gas	12	Transitional	-0.025	21.5%	
BBERG Petroleum	18	Transitional	-0.152	39.9%	
BBERG Livestock	14	Transitional	0.015	7.7%	0.55%
Dollar Index	22	Trending	-0.092	5.9%	-0.13%
S&P 500 Index	29	Trending	-0.243	22.4%	-0.15%
EAFE Index	29	Trending	-0.243	13.0%	-0.34%
EM Index	29	Trending	-0.129	11.3%	-0.11%
Ten-year UST (price)	29	Trending	0.344	4.4%	0.13%

Performance Measures

The secular bear market in physical commodities continued, with the prominent exception of Precious Metals, which have gained on a haven bid. This is the weakest reason to buy gold, and those who are doing so are likely to regret it.

	Commodity Total Returns			
	Five-Days	One Month	Six Months	One Year
Bloomberg Index	-1.49%	-5.84%	-10.25%	-10.25%
Grains Sub-Index	-1.04%	-0.72%	-1.71%	-5.00%
Corn	0.12%	-0.41%	-1.28%	-4.47%
Soybeans	-1.13%	-1.14%	-0.15%	-11.68%
Wheat	-2.24%	-0.64%	-2.63%	5.23%
Energy Sub-Index	-3.85%	-16.39%	-20.28%	-10.17%
Petroleum Sub-Index	-2.18%	-9.93%	-32.21%	-19.80%
WTI	-1.22%	-11.03%	-35.64%	-20.69%
Brent	-2.58%	-10.52%	-31.60%	-15.84%
ULSD	-4.13%	-8.78%	-24.38%	-16.69%
Gasoline	-1.00%	-7.51%	-34.11%	-28.41%
Natural Gas	-6.81%	-26.00%	13.54%	10.25%
Precious Metals Sub-Index	1.81%	5.69%	0.34%	-4.63%
Gold	1.24%	4.84%	1.98%	-2.70%
Silver	3.87%	8.77%	-5.08%	-10.80%
Industrial Metals Sub-Index	-1.98%	-4.51%	-14.43%	-18.97%
Copper	-0.50%	-3.62%	-9.83%	-19.75%
Aluminum	-3.37%	-6.35%	-13.23%	-16.99%
Nickel	-1.66%	-4.31%	-28.13%	-16.08%
Zinc	-3.73%	-3.94%	-10.76%	-22.21%
Softs Sub-Index	-1.42%	-7.07%	-11.04%	-20.85%
Coffee	-1.46%	-5.96%	-16.53%	-27.15%
Sugar	-0.27%	-3.33%	-4.37%	-23.88%
Cotton	-3.77%	-8.35%	-14.91%	-7.34%
Livestock Sub-Index	0.31%	-0.89%	3.59%	-1.70%
Cattle	1.55%	3.24%	7.38%	2.81%
Hogs	-2.71%	-10.05%	-3.73%	-11.47%

The USD declined against all but the CAD, NZD and CLP as the market is pricing out higher short-term interest rates in the U.S. in 2019. Unfortunately, this is a prime example of “now-casting;” the Federal Reserve is likely to resume its tightening of credit once the bearish trend in risky assets dissipates.

	Currency Returns			
	Five-Days	One Month	Six Months	One Year
Euro	0.63%	0.69%	-1.08%	-4.18%
Chinese yuan	0.41%	1.10%	-3.66%	-5.02%
Japanese yen	0.86%	3.09%	0.20%	2.36%
British pound	0.43%	-0.98%	-2.90%	-5.53%
Swiss franc	0.93%	0.96%	1.31%	-0.61%
Canadian dollar	-0.26%	-2.66%	-2.85%	-7.83%
Australian dollar	0.10%	-3.55%	-4.15%	-9.58%
Swedish krona	0.52%	0.46%	0.26%	-8.34%
Norwegian krone	0.65%	-1.72%	-5.97%	-5.25%
New Zealand dollar	-0.15%	-2.23%	-0.61%	-5.17%
Indian rupee	0.33%	0.96%	-1.65%	-8.39%
Brazilian real	0.60%	-0.58%	-0.42%	-14.54%
Mexican peso	1.43%	3.25%	0.30%	0.32%
Chilean peso	-0.18%	-2.65%	-6.30%	-11.35%
Colombian peso	1.20%	0.70%	-9.42%	-8.18%
Bloomberg-JP Morgan Asian dollar index (spot)	0.69%	0.78%	-1.62%	-3.92%

If this week’s price action cannot kill the efficient market hypothesis, nothing can. Gains were most likely attributable to short-covering and asset-reallocation. We will not get an answer as to whether the bear trend will continue until the start of the second quarter.

	Equity Total Returns			
	Five-Days	One Month	Six Months	One Year
MSCI World Free	0.48%	-8.22%	-9.54%	-8.85%
North America	2.87%	-9.16%	-8.21%	-6.43%
Latin America	2.24%	-0.02%	7.20%	-5.80%
Emerging Market Free	0.56%	-2.91%	-8.57%	-14.52%
EAFE	0.02%	-5.25%	-11.65%	-13.74%
Pacific	-0.01%	-5.60%	-10.55%	-12.24%
Eurozone	-0.55%	-5.28%	-13.90%	-16.09%

All of the professional traders posted gains in one of the most volatile weeks on records. Too bad this follows months of absolute losses and an ongoing spate of fund closures.

	CTA/Hedge Fund Returns			
	Five-Days	One Month	Six Months	One Year
SocGen CTA	1.03%	1.33%	-2.18%	-7.85%
SocGen Trend	0.59%	1.54%	-0.58%	-5.92%
SocGen Short-Term	0.56%	1.87%	-0.51%	0.42%
HFR Global Hedge Fund	0.27%	-1.93%	-6.25%	-7.12%
HFR Macro/CTA	0.56%	1.37%	-0.97%	-2.84%
HFR Macro:	0.69%	2.13%	-0.41%	-4.35%
Systematic Diversified CTA				