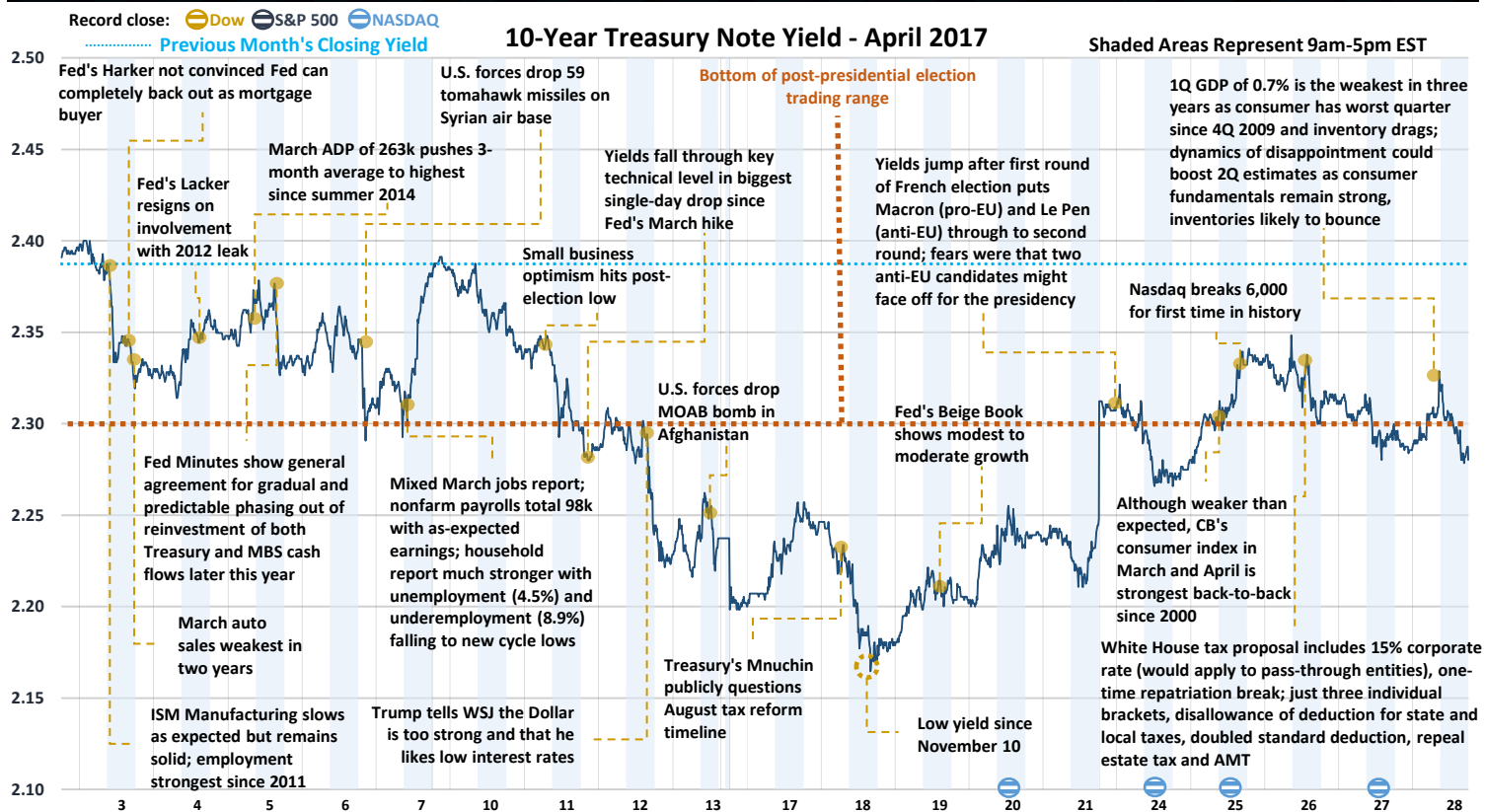


Monthly Review

April 2017

Yields Hit Post-Election Lows on Elevated Geopolitical, Fiscal Reform Uncertainties



Yields Fall Below Post-Election Trading Range as Geopolitical Tensions Rise, Questions about Fiscal Reforms Emerge, and Economic Data Cools

Markets: The Treasury curve flattened in April as prospects for additional Fed hikes kept the 2-year yield locked in but other factors weighed on longer yields. Military action in Syria and Afghanistan and discordant discourse between the U.S. and North Korea created a backdrop of uneasiness. At the same time, questions about the timing and structure of U.S. tax reforms applied downward pressure on yields. Conversely, the first round of the French election buoyed yields as the pro-EU candidate Macron made it through to the second round with a comfortable lead over the anti-EU Le Pen. The net effect of an anchored 2-year yield and longer yields hitting post-election lows was the curve hitting its flattest point (1.00% on April 18) between 2s and 10s since before the U.S. election. The Dollar also reflected disappointment in April by touching its weakest level since the election. Nonetheless, stocks managed monthly gains as quarterly corporate earnings were strong. Crude prices fell 2.5% on concerns of higher U.S. production.

Consumer: A disappointing nonfarm payroll report (98k) was chalked up to weather-related distortions but created some uncertainty still. Consumer sentiment softened in April, but in a historical context levels remain strong. The CB's consumer confidence index notched its best back-to-back result since 2000. Consumer spending metrics disappointed in March culminating with the worst quarter for consumers since 4Q 2009. Personal consumption grew just 0.3% according to the first look at 1Q GDP. However, consumer fundamentals, including steady earnings growth, remain supportive which has led to expectations for a better showing in the second quarter.

Private Investment: As with the consumer, business optimism cooled in March as did both ISM reports. Weak inventory growth was a big detractor in the 1Q GDP report and overshadowed firmer spending on equipment and structures. However, the forward looking data points to some moderation in business spending as capital goods orders were weaker than expected. Housing was also accretive to 1Q GDP as existing home sales set a new cycle high and sales of new homes unexpectedly rebounded to 1k shy of their cycle best. The leading indicators were mixed as pending sales improved but starts and permits were poor in the single family series.

External Trade: Trade was essentially neutral to 1Q GDP growth, adding a modest 0.1%. This was consistent with data in the early months of 2017 that was generally more favorable than forecasted and showed modest improvement from 4Q 2016.

Inflation: As expected, headline inflation metrics reflected an energy-related giveback in March as YoY crude comparisons reversed from February's extremes. Headline CPI and PCE inflation were deflationary. More concerning were MoM deflationary readings at the core level for both series. Weaker pricing of autos and apparel, as well as a big drop in the cost of cellular services, led the widespread disappointment in both surveys. While one swallow does not a summer make, the monthly inflation data could create conversations about the feasibility of the Fed's median projection for two additional hikes in 2017.

Monetary Policy: The Fed didn't meet in April but Minutes from the March meeting indicated general support for phasing out cash flow reinvestments from both Treasury and MBS investments as early as the end of this year. Monthly FedSpeak reinforced this idea. Remarks from Fed officials also took a positive tone causing markets to price in an additional 133-points into the chance of a rate increase in June (70% on April 28). Elsewhere, the market's response to decisions by the BoJ and ECB to leave policy unchanged depicted a dovish interpretation of the contextual clues surrounding those decisions. The BoJ is worried about inflation and the ECB gave no clear signal about an exit from its stimulus.

Monthly Review

April 2017

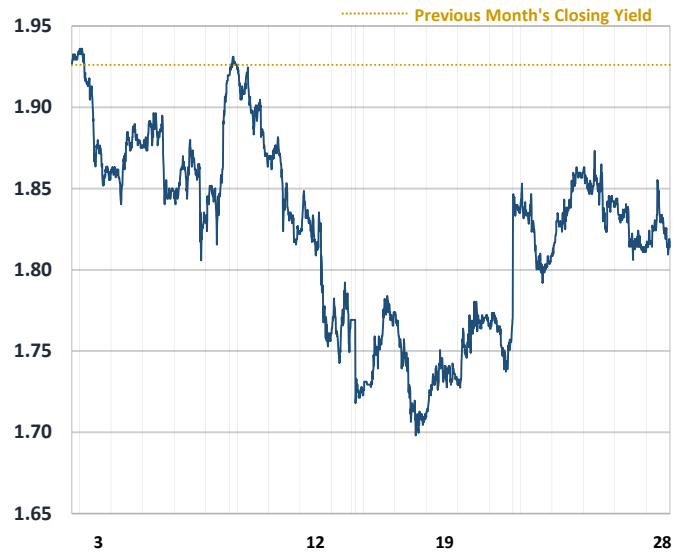
Yields Hit Post-Election Lows on Elevated Geopolitical, Fiscal Reform Uncertainties



2-Year Treasury Note Yield - April 2017



5-Year Treasury Note Yield - April 2017



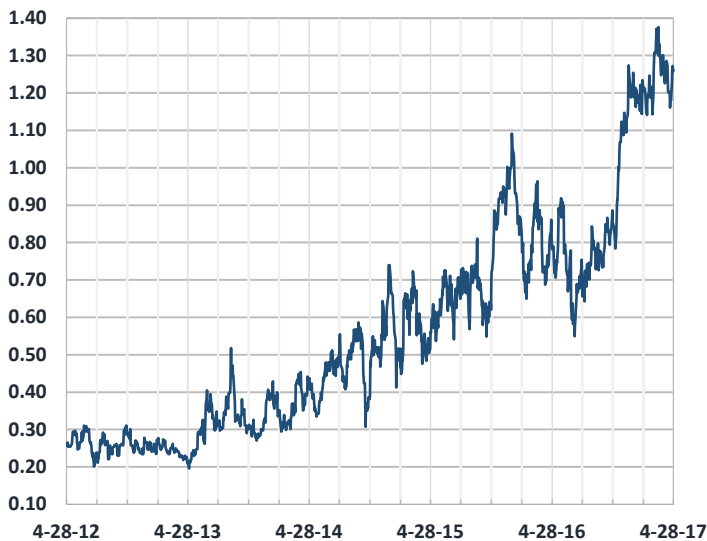
2-Year Treasury Note Yield - Last 12 Months



5-Year Treasury Note Yield - Last 12 Months



2-Year Treasury Note Yield - Last 5 Years



5-Year Treasury Note Yield - Last 5 Years



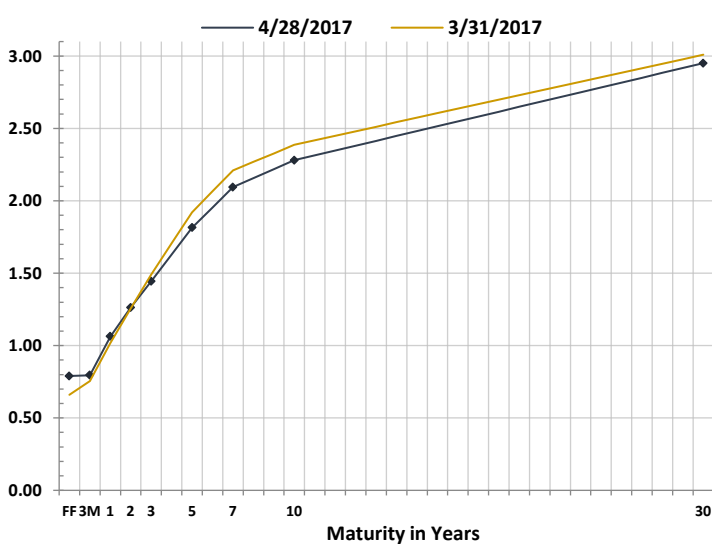
Monthly Review

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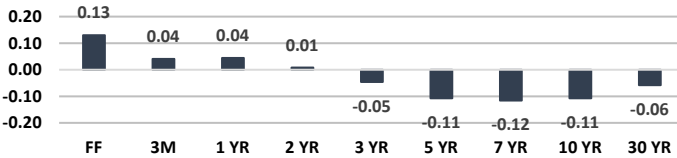
Yields Hit Post-Election Lows on Elevated Geopolitical, Fiscal Reform Uncertainties



Treasury Month-Over-Month



Month-Over-Month Change in Treasury Yields



Global Stock Performance

	Value	MTD Change	QTD Change	YTD Change
Dow Jones	20,941	1.34% ↑	1.34% ↑	5.96% ↑
S&P 500	2,384	0.91% ↑	0.91% ↑	6.49% ↑
Nasdaq	6,048	2.30% ↑	2.30% ↑	12.34% ↑
Stoxx Europe 600	387	1.56% ↑	1.56% ↑	7.10% ↑
China CSI 300	3,440	-0.47% ↓	-0.47% ↓	3.92% ↑
Nikkei 225	19,197	1.52% ↑	1.52% ↑	0.43% ↑

Global Sovereign Debt Performance

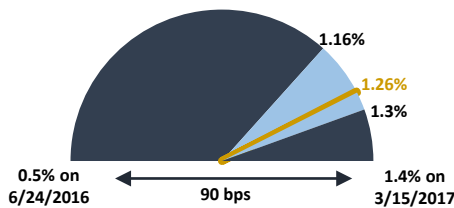
	Yield	MTD Change (in bps)	QTD Change (in bps)	YTD Change (in bps)
U.S. 2-year	1.26%	0.8 ↑	0.8 ↑	7.4 ↑
U.S. 5-year	1.81%	-10.7 ↓	-10.7 ↓	-11.3 ↓
U.S. 10-year	2.28%	-10.7 ↓	-10.7 ↓	-16.4 ↓
German 10-year	0.32%	-1.1 ↓	-1.1 ↓	10.9 ↑
U.K. 10-year	1.09%	-5.4 ↓	-5.4 ↓	-15.4 ↓
French 10-year	0.84%	-13.4 ↓	-13.4 ↓	15.0 ↑
Italian 10-year	2.28%	-3.6 ↓	-3.6 ↓	46.7 ↑
Japanese 10-year	0.02%	-5.2 ↓	-5.2 ↓	-2.8 ↓

Commodity Performance

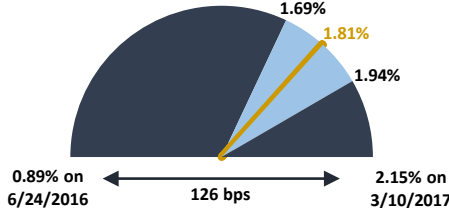
	Value	MTD Change	QTD Change	YTD Change
WTI Crude	\$ 49.33	-2.51% ↓	-2.51% ↓	-8.17% ↓
U.S. Dollar	99.05	-1.30% ↓	-1.30% ↓	-3.09% ↓
Gold Spot	1,268	1.52% ↑	1.52% ↑	10.07% ↑
Commodity Index	84.01	-1.57% ↓	-1.57% ↓	-4.00% ↓

Treasury Notes Intraday Ranges: 52-Week Yield Range / Monthly Yield Range / Last Traded Yield

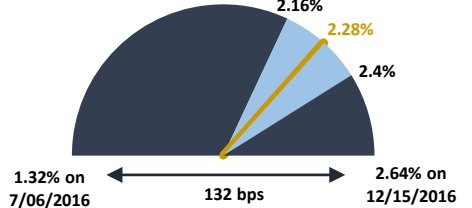
2-Year Treasury



5-Year Treasury



10-Year Treasury



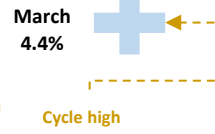
Nonfarm Payrolls



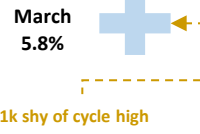
Unemployment Rate



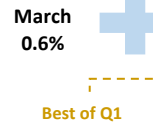
Existing Home Sales MoM



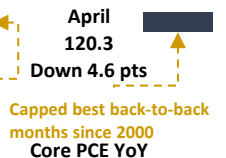
New Home Sales MoM



Core Retail Sales



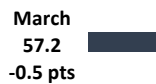
Consumer Confidence



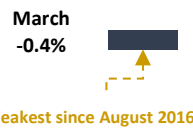
ISM Non-Manufacturing



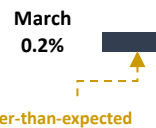
ISM Manufacturing



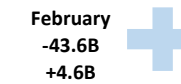
Manufacturing Production



Core Capital Goods Orders



Trade Balance



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