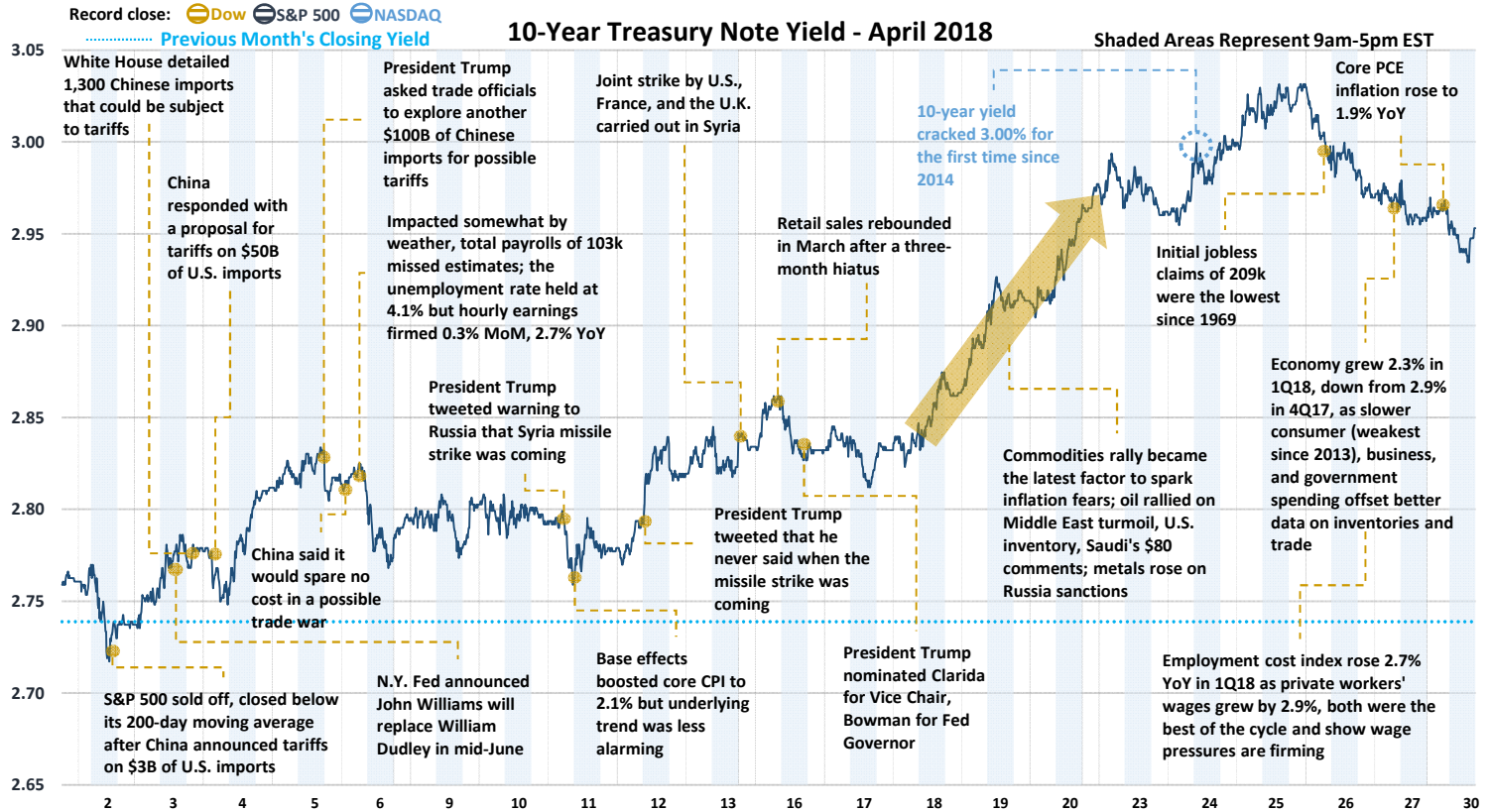


# Monthly Review

April 2018

Early Trade Tensions Cooled and Additional Signs Inflation is Firming Sent the 10-Year Yield above 3.00%



## A Strong Start to Corporate Earnings Season Helped Keep the Major Indexes Positive, Despite Treasury Yields Rising to Multi-Year Highs

**Markets:** U.S. equities improved despite several points along the Treasury curve touching the highest levels in years. The 2-year yield reached as high as 2.48% (highest since September 2008), the 5-year yield rose to 2.80% (August 2009), and the 10-year yield crossed 3.00% for the first time since January 2014. All three added more than 20 bps on the month. A mid-month commodities rally became the latest force to bolster expectations inflation would firm. The S&P 500 and Dow both gained 0.3%, with the latter now having improved in every April since 2005. Corporate earnings started strongly. According to FactSet, 79% of the 53% of companies that reported through April 27 beat estimates, on pace for the best quarter since they began tracking in 2008. As rates rose, the Dollar firmed 2.1% in its best month since the 2016 election.

**Consumer:** As expected based on weaker retail sales to start the year, consumer spending grew in the first quarter at the slowest rate since 2013 based on the initial GDP estimate. However, retail sales and personal spending data both picked back up in March, supporting expectations for a bounce-back in the coming months as the effects of the tax cuts take hold. Confidence indicators were mixed but remained strong. Hiring was disappointing in March (103k and -50k in revisions) but average hourly earnings remained stable. Firmer wages were also a big driver of the employment cost index increasing 2.7% YoY, its fastest pace of the cycle. Over the next several months, the labor data, specifically anything related to wages (inflation indicator), will be a major focus for the Fed.

**Private Investment:** Fixed investment slowed in the first quarter with housing activity unchanged and business spending on equipment providing less of a boost. Weaker equipment was consistent with slower capital goods activity in recent months. However, overall business spending remained steady as outlays on structures and intellectual property increased. Small business confidence cooled to a five-month low but the number business citing taxes as their single biggest problem dropped to its lowest level since 1982. Home sales surprised to the high side of estimates in March, showing consumers continued to weather tight inventories, rising prices, and higher mortgage rates. However, home builder confidence inched down for a fourth month indicating the data could remain choppy amidst those headwinds.

**External Trade:** The goods trade deficit shrank for the first time in seven months in March as imports weakened. Import weakness was largely responsible for trade adding to 1Q growth after dragging significantly in the final three months of 2018. Looking ahead, a soft patch in the global data, a stronger Dollar, and expectations for better domestic activity could weigh on trade in the coming months.

**Inflation:** Inflation reached the Fed's 2% target in the March readings as base effects boosted both the CPI and PCE metrics. Headline CPI moved from 2.2% to 2.4% and core rose from 1.8% to 2.1%. Headline PCE moved from 1.7% to 2.0% and core increased from 1.6% to 1.9%. Because of the noise in the YoY metrics caused by those base effects, monthly results and shorter-term momentum indicators will be more meaningful.

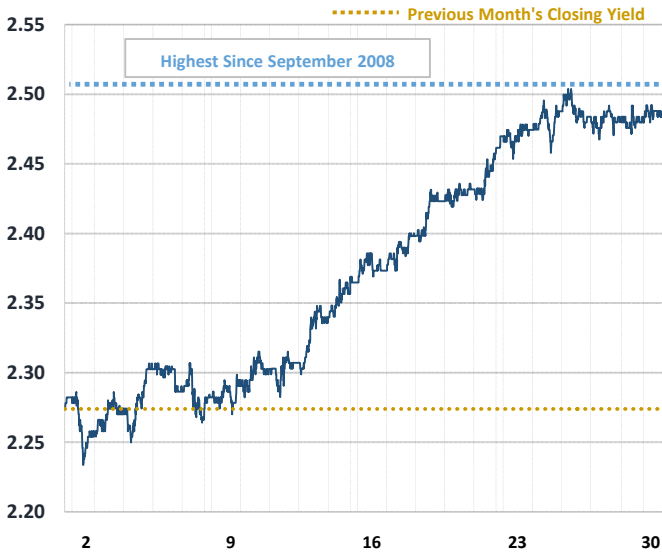
**Monetary Policy:** The Fed's March Minutes echoed the earlier optimism from the Statement and updated projections. All officials believed the outlook had strengthened, there was more confidence in the inflation outlook, and the majority supported gradual rate increases. In other Fed news, San Francisco Fed President John Williams was tapped to take over the New York Fed when Dudley retires mid-June and the President announced two more Fed nominees. Richard Clarida was nominated to be Fed Vice Chair and Michelle Bowman was picked to fill a Fed Governor vacancy. The Bank of Japan and European Central bank both met and elected to leave policy unchanged. While they continued to sound optimistic, they showed little urgency in moving away from ultra-accommodative monetary policy.

# Monthly Review

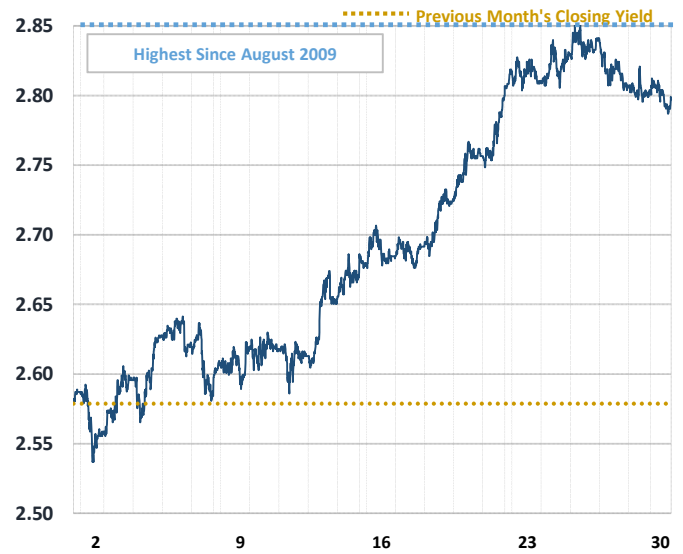
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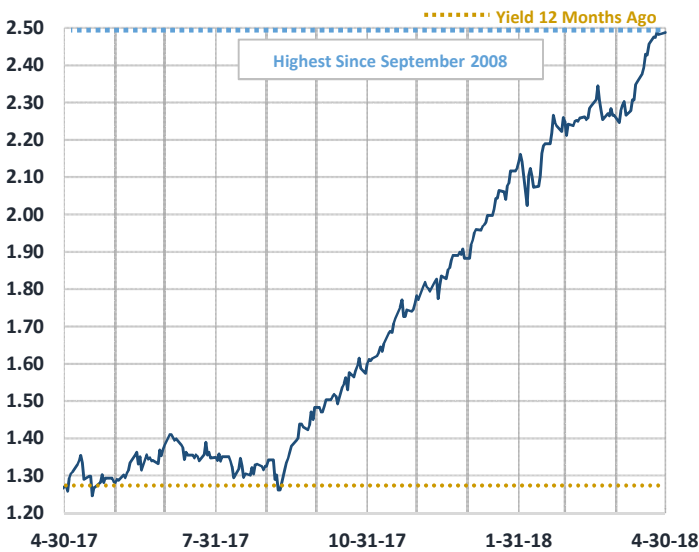
2-Year Treasury Note Yield - April 2018



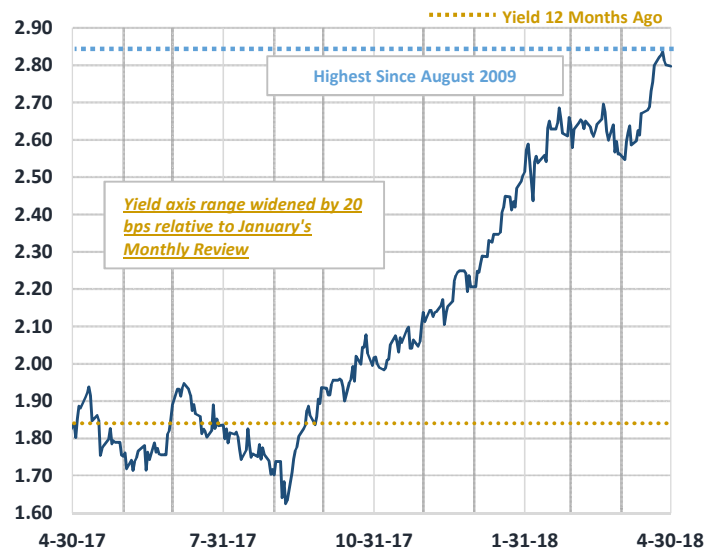
5-Year Treasury Note Yield - April 2018



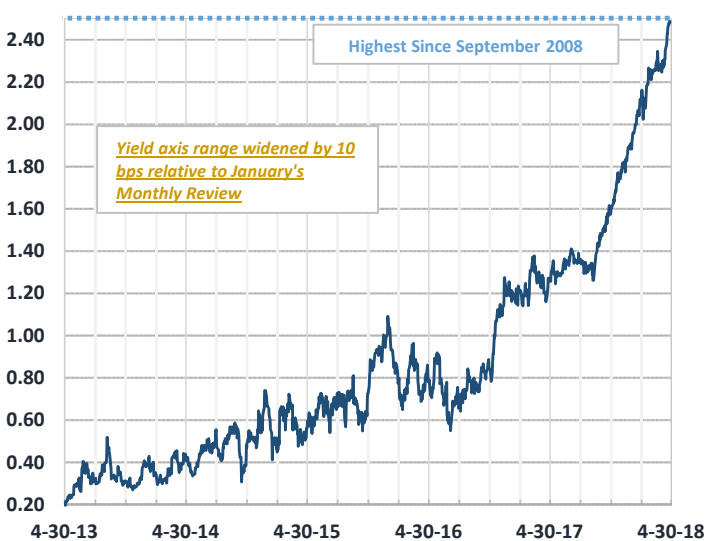
2-Year Treasury Note Yield - Last 12 Months



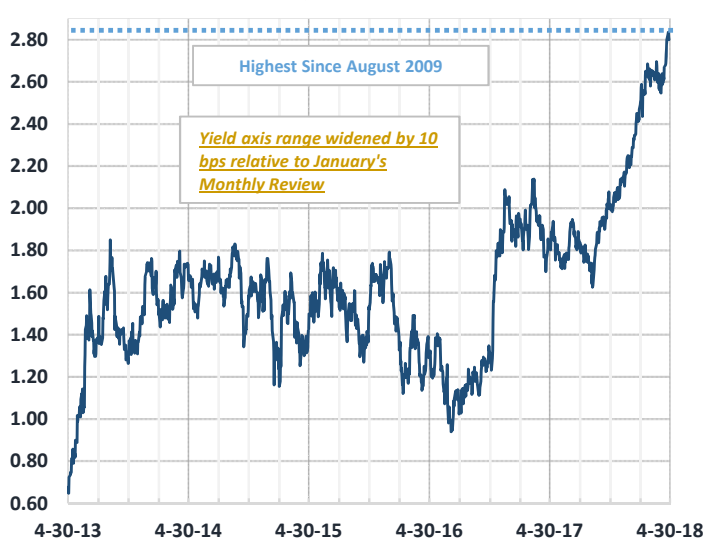
5-Year Treasury Note Yield - Last 12 Months



2-Year Treasury Note Yield - Last 5 Years



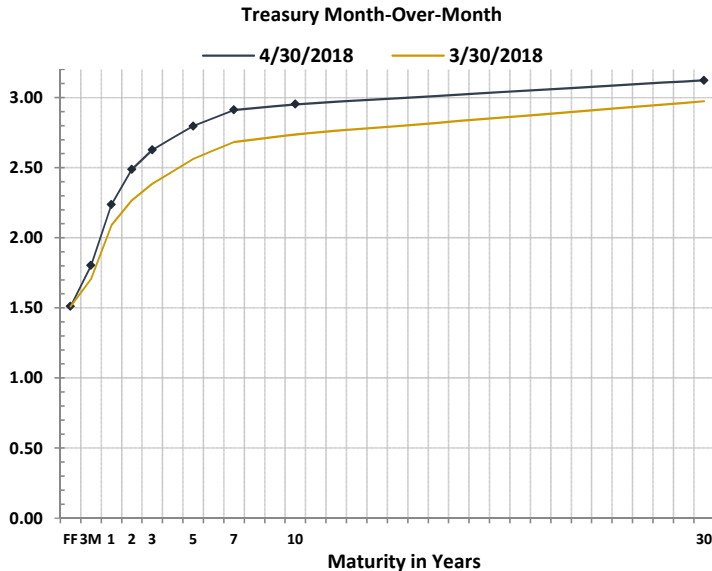
5-Year Treasury Note Yield - Last 5 Years



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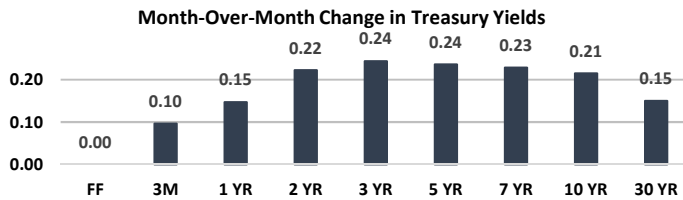


**Global Stock Performance**

	Value	MTD Change	QTD Change	YTD Change
Dow Jones	24,163	0.25% ↑	0.25% ↑	-2.25% ↓
S&P 500	2,648	0.27% ↑	0.27% ↑	-0.96% ↓
Nasdaq	7,066	0.04% ↑	0.04% ↑	2.36% ↑
Stoxx Europe 600	385	3.90% ↑	3.90% ↑	-0.99% ↓
China CSI 300	3,757	-3.63% ↓	-3.63% ↓	-6.80% ↓
Nikkei 225	22,468	4.72% ↑	4.72% ↑	-1.30% ↓

**Global Sovereign Debt Performance**

	Yield	MTD Change (in bps)	QTD Change (in bps)	YTD Change (in bps)
U.S. 2-year	2.49%	22.2 ↑	22.2 ↑	60.5 ↑
U.S. 5-year	2.80%	23.5 ↑	23.5 ↑	59.1 ↑
U.S. 10-year	2.95%	21.4 ↑	21.4 ↑	54.8 ↑
German 10-year	0.56%	6.2 ↑	6.2 ↑	13.2 ↑
U.K. 10-year	1.42%	6.8 ↑	6.8 ↑	22.8 ↑
French 10-year	0.79%	6.5 ↑	6.5 ↑	0.1 ↑
Italian 10-year	1.79%	-0.1 ↓	-0.1 ↓	-23.1 ↓
Japanese 10-year	0.06%	0.6 ↑	0.6 ↑	0.7 ↑

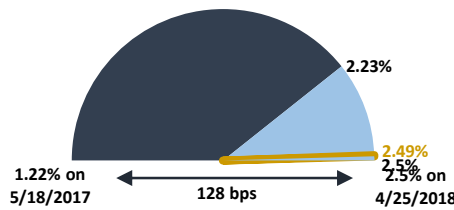


**Commodity Performance**

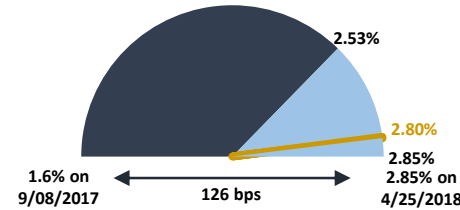
	Value	MTD Change	QTD Change	YTD Change
WTI Crude	\$ 68.57	5.59% ↑	5.59% ↑	13.49% ↑
U.S. Dollar	91.84	2.08% ↑	2.08% ↑	-0.31% ↓
Gold Spot	1,315	-0.73% ↓	-0.73% ↓	0.94% ↑
Commodity Index	89.59	2.42% ↑	2.42% ↑	1.62% ↑

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

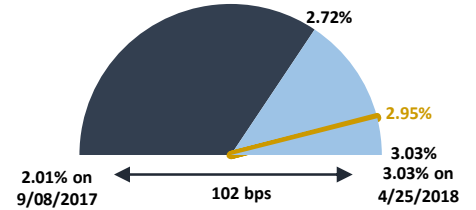
2-Year Treasury



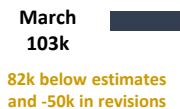
5-Year Treasury



10-Year Treasury



Nonfarm Payrolls



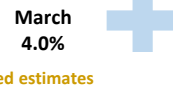
Unemployment Rate



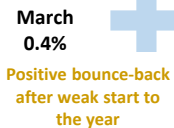
Existing Home Sales MoM



New Home Sales MoM



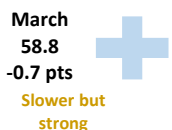
Core Retail Sales



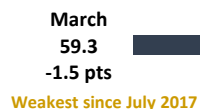
Consumer Confidence



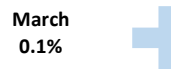
ISM Non-Manufacturing



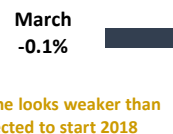
ISM Manufacturing



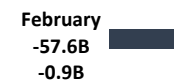
Manufacturing Production



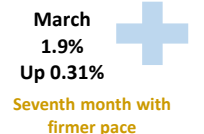
Core Capital Goods Orders



Trade Balance



Core PCE YoY



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