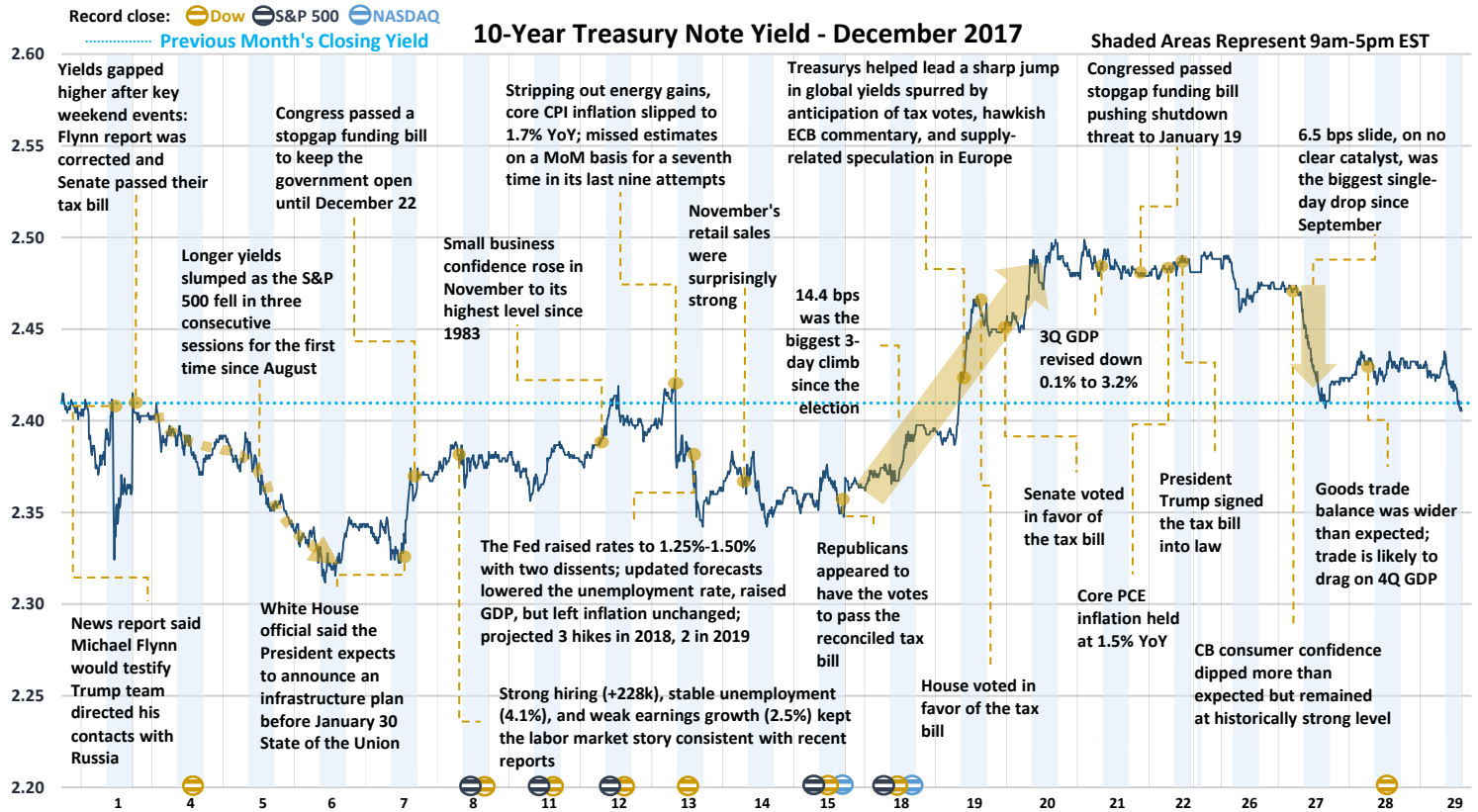


Monthly Review

December 2017

Curve Flattened after Fed's Third 2017 Hike and Stocks Gained as Republicans Passed Their Tax Plan into Law



The Curve Flattened Again Following another Fed Hike and Stocks Closed out a Record Year as Republicans' Tax Cuts Became a Reality

Markets: U.S. stocks wrapped up a record 2017 with modest December gains. The Dow led with a 1.8% gain and finished positive in 11 of the 12 months in 2017 for the first time since 1958. The S&P and Nasdaq rose 1.0% and 0.4% respectively; both also rose in 11 of 12 months. December's gains were concentrated in the first half of the month ahead of Republicans passing their tax bill and the President signing it into law. Gains in the U.S. helped keep the MSCI All-World Index positive in December, marking the first time the index rose in each month of a year in records back to 1987. As to rates, despite some intra-month ups and downs, longer Treasury yields were little changed. However, shorter yields continued to climb after the Fed hiked and continued to project five more rate increases by the end of 2019. The 2-year yield added more than 10 bps in December while the 10-year yield fell just under 0.5 bp, flattening the related spread to a new cycle low of 51.3 bps on December 15 (closed at 51.8 bps). The Dollar gave up early-month gains to wrap up its worst year since 2003 and crude prices ended at a more-than-two-and-a-half-year high.

Consumer: Consumer confidence dipped more than expected in December but remained at one of the strongest levels of the cycle. Solid confidence measures paired with a small downward revision to spending in 3Q (lower benchmark for QoQ comparison) and surprisingly strong retail sales for November bode well for 4Q consumer spending and the 2018 outlook. The November nonfarm payroll report told a story similar to that of reports earlier in the year: the labor market continued to produce solid hiring (+228k), low unemployment (4.1%), but disappointing earnings growth (2.5% YoY).

Private Investment: Momentum indicators were mixed for business activity as both ISM reports cooled in November and capital goods activity was a touch weaker than expected. However, absolute levels remained stable and small business confidence jumped to its highest level since 1983, keeping the near-term outlook positive. The housing data was surprisingly strong as sales of both new and existing homes topped estimates and notched their best month of the cycle. Housing starts and building permits bested expectations and pending sales nudged higher. However, prices continued to rise at an above-6% YoY pace keeping affordability towards the top of the list of headwinds for the sector.

External Trade: The trade data continued to disappoint despite the weaker Dollar and it appears net external trade will drag on 4Q growth. November's advanced goods trade balance was \$1.8B wider than expected.

Inflation: Stripping out a positive energy effect, core inflation continued to look soft in November with both the CPI and PCE inflation indices rising 0.1% MoM. This resulted in the core CPI inflation rate slipping from 1.8% YoY to 1.7% while the PCE rate ticked up to 1.5%; a fourth month of slightly firmer PCE inflation. Inflation remains the primary focus of Fed officials and will be key to watch in 2018.

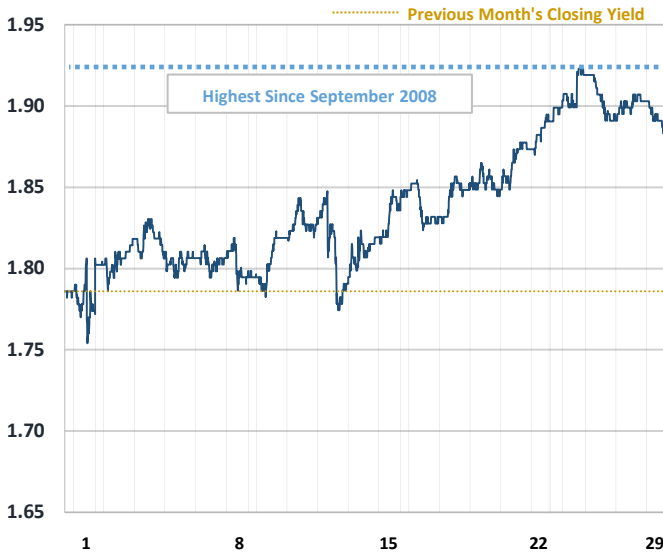
Monetary Policy: The Fed decided to raise rates for the third time in 2017 and the fifth time of this economic cycle. The decision elicited dissents from two bank Presidents (Evans and Kashkari), both of whom will rotate off of the voting committee in 2018. In their updated projections, the Fed dropped its forecasted unemployment rate for 2018 by 0.2% to 3.9% and boosted its expectation for GDP by 0.4% to 2.5%. Still, they saw this as having no impact to its 2018 inflation expectation of 1.8%. The ECB left its policy stance unchanged and tweaked its forecast in a manner similar to the Fed: a better growth outlook having little effect on inflation. After raising rates in November for the first time in 10 years, the Bank of England noted mixed results in the recent economic data but continued to call for modest rate increases over the next few years.

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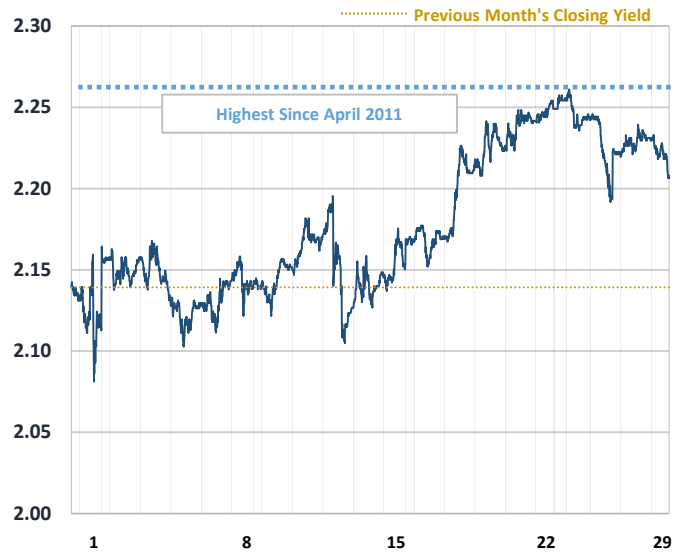
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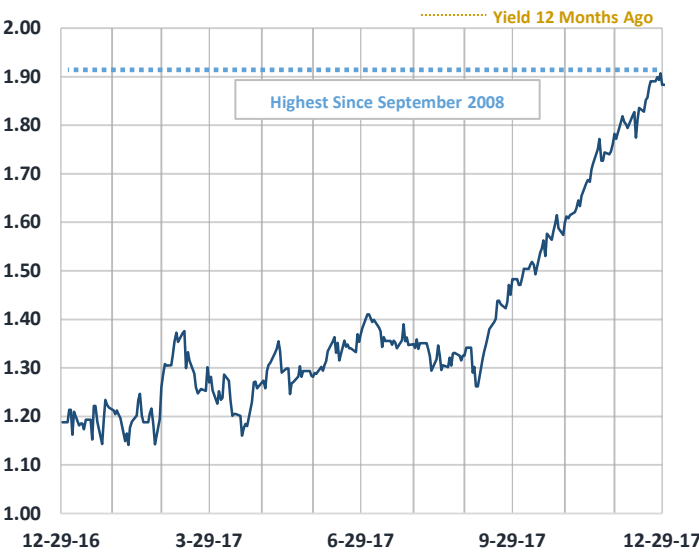
2-Year Treasury Note Yield - December 2017



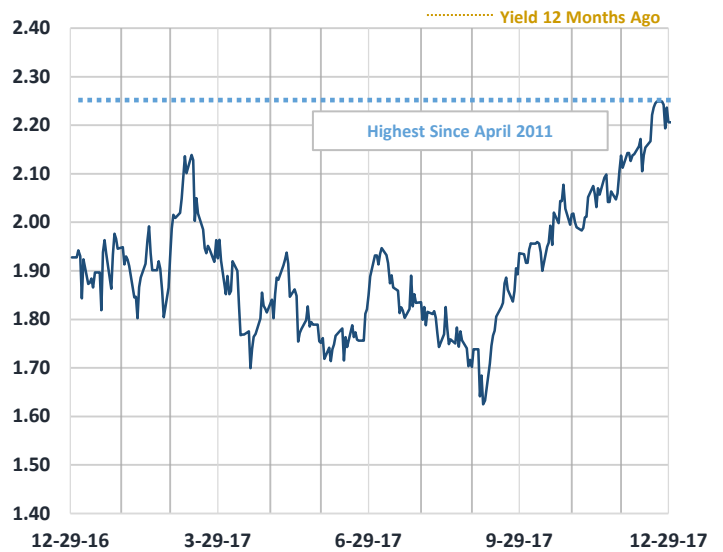
5-Year Treasury Note Yield - December 2017



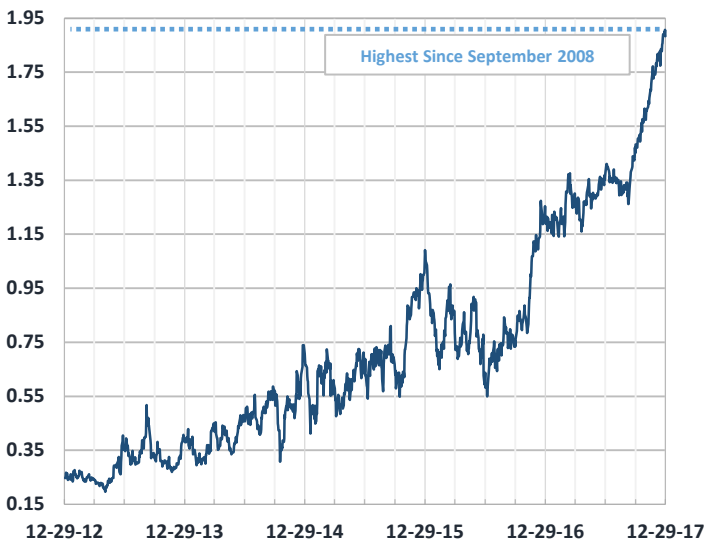
2-Year Treasury Note Yield - Last 12 Months



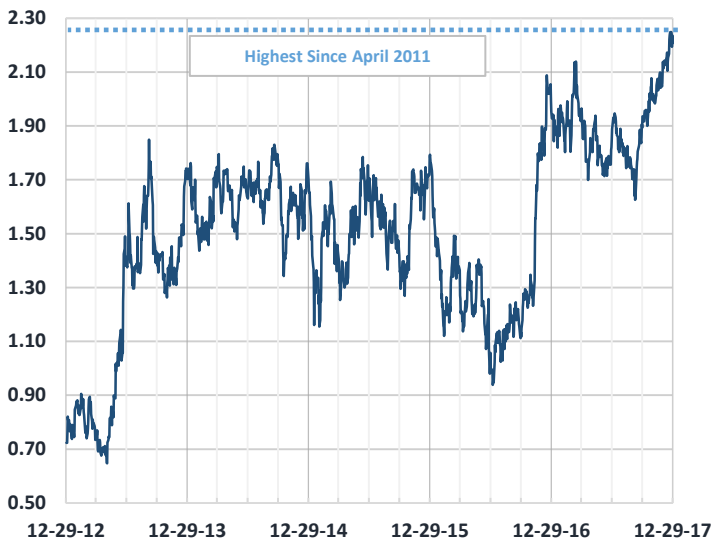
5-Year Treasury Note Yield - Last 12 Months



2-Year Treasury Note Yield - Last 5 Years



5-Year Treasury Note Yield - Last 5 Years

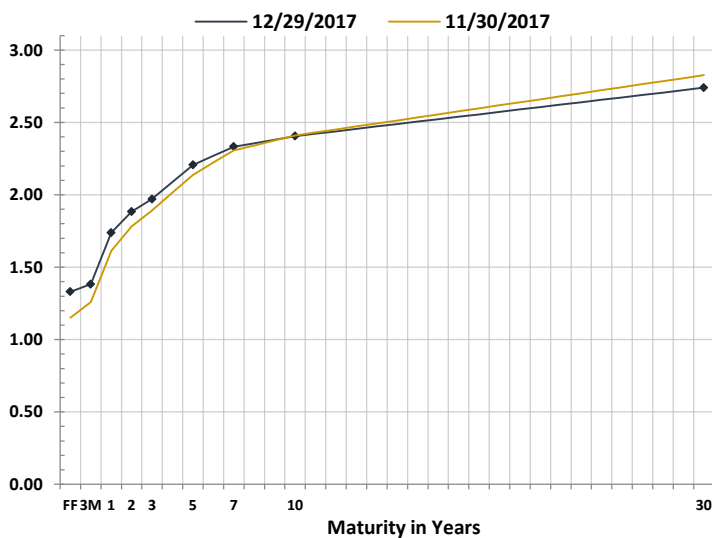


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Treasury Month-Over-Month



Month-Over-Month Change in Treasury Yields



Global Stock Performance

	Value	MTD Change	QTD Change	YTD Change
Dow Jones	24,719	1.84% ↑	10.33% ↑	25.08% ↑
S&P 500	2,674	0.98% ↑	6.12% ↑	19.42% ↑
Nasdaq	6,903	0.43% ↑	6.27% ↑	28.24% ↑
Stoxx Europe 600	389	0.64% ↑	0.26% ↑	7.68% ↑
China CSI 300	4,031	0.62% ↑	5.07% ↑	21.78% ↑
Nikkei 225	22,765	0.18% ↑	11.83% ↑	19.10% ↑

Global Sovereign Debt Performance

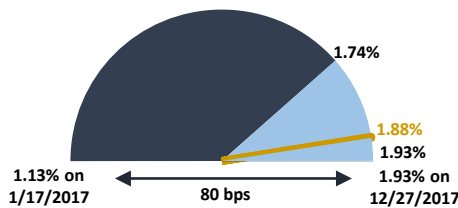
	Yield	MTD Change (in bps)	QTD Change (in bps)	YTD Change (in bps)
U.S. 2-year	1.88%	10.1 ↑	40.0 ↑	69.5 ↑
U.S. 5-year	2.21%	6.9 ↑	27.0 ↑	27.9 ↑
U.S. 10-year	2.41%	-0.4 ↓	7.2 ↑	-3.9 ↓
German 10-year	0.43%	6.0 ↑	-3.7 ↓	21.9 ↑
U.K. 10-year	1.19%	-14.0 ↓	-17.5 ↓	-4.9 ↓
French 10-year	0.79%	10.3 ↑	4.2 ↑	9.9 ↑
Italian 10-year	2.02%	26.8 ↑	-9.5 ↓	20.1 ↑
Japanese 10-year	0.05%	0.9 ↑	-2.0 ↓	0.2 ↑

Commodity Performance

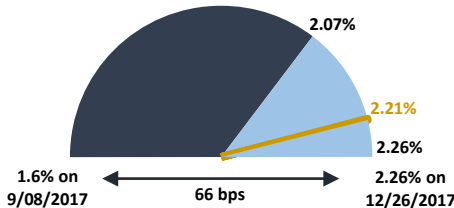
	Value	MTD Change	QTD Change	YTD Change
WTI Crude	\$ 60.42	5.26% ↑	16.93% ↑	12.47% ↑
U.S. Dollar	92.12	-0.99% ↓	-1.02% ↓	-9.87% ↓
Gold Spot	1,303	2.20% ↑	1.79% ↑	13.09% ↑
Commodity Index	88.17	2.88% ↑	4.39% ↑	0.75% ↑

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

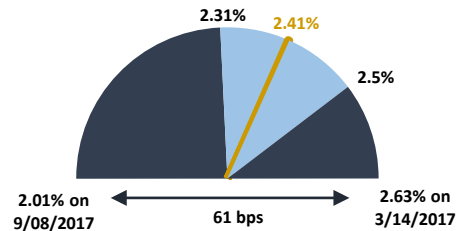
2-Year Treasury



5-Year Treasury



10-Year Treasury



Nonfarm Payrolls

November 228k

Another better-than-expected hiring figure

Unemployment Rate

November 4.1% Unchanged

Existing Home Sales MoM

November 5.6%

Housing data continued to surprise expectations as both new and existing home sales set new highs for the cycle

New Home Sales MoM

November 17.5%

Core Retail Sales

November 0.8%

Double estimates

Consumer Confidence

December 122.1 Down 6.5 pts

A disappointing month, but strong historically

ISM Non-Manufacturing

November 57.4 -2.7 pts

Both ISMs were softer MoM but continued to signal a steady expansion for the U.S. economy

ISM Manufacturing

November 58.2 -0.5 pts

Manufacturing Production

November 0.2%

Core Capital Goods Orders

November -0.1%

Monthly miss was offset somewhat by strong prior month revision

Trade Balance

October -48.7B -3.8B

Core PCE YoY

November 1.5% Up 0.06% Fastest since June

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