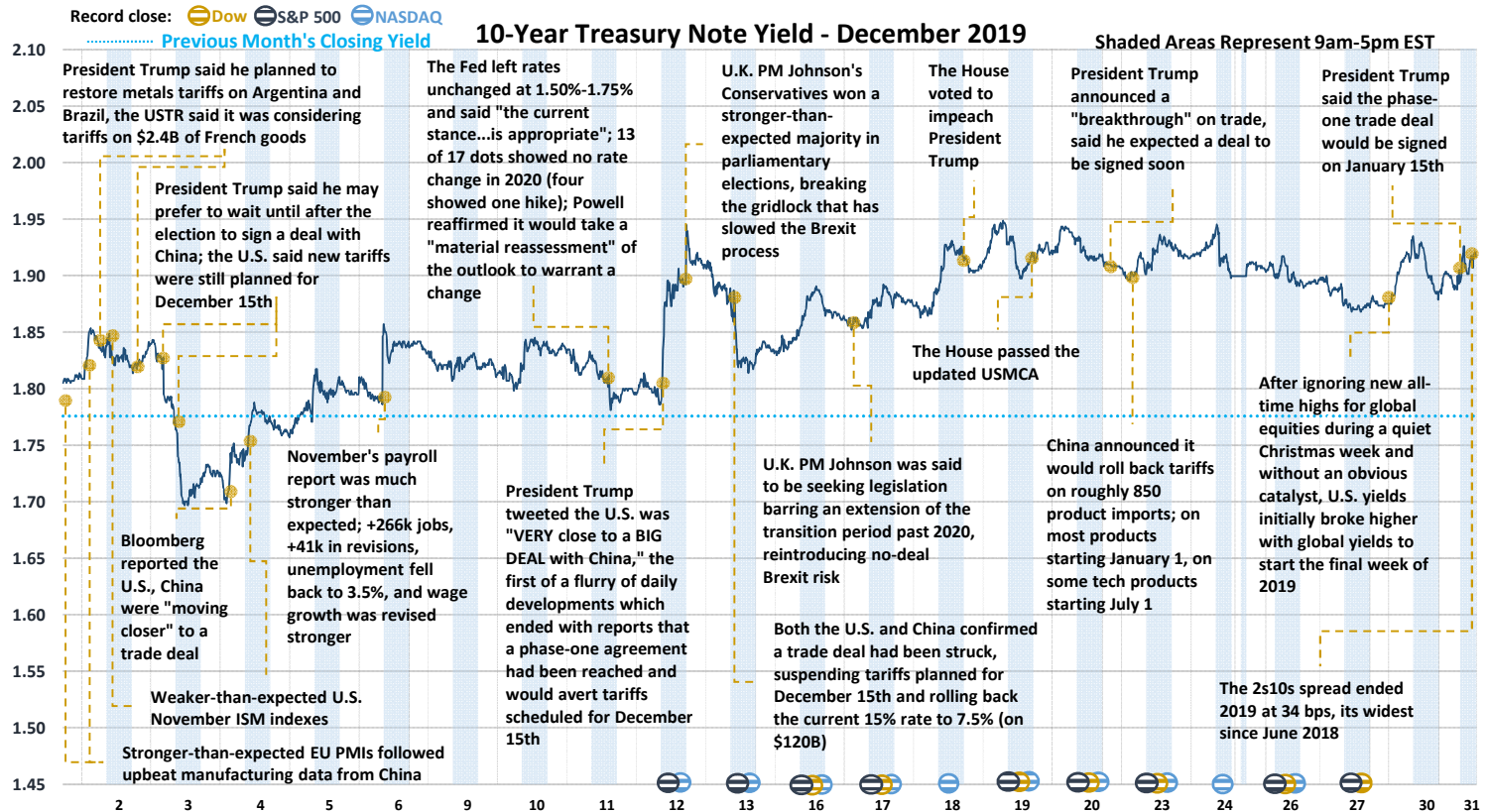


Monthly Review

December 2019

VINING SPARKS

Stocks Set New Records and the Yield Curve Steepened as Trade Tensions Eased and Fed Reaffirmed its Policy Pause



With the Fed Cementing Expectations for a Prolonged Pause, Easing Trade Tensions and a Bit of Brexit Clarity Paved the Way for Equity Records and a Steeper Curve

Markets: Global stocks set new records in December and yield curves steepened as the Fed solidified its pause, trade tensions eased with a phase-one agreement, and U.K. PM Johnson strengthened his Brexit mandate in parliamentary elections. The Fed's updated dot plot reaffirmed its plan to hold rates steady in 2020 after three rate cuts in response to global uncertainties and muted inflation. In the 24 hours after the Fed's decision, the U.S. and China reached a phase-one trade agreement, avoiding new tariffs on December 15 and rolling back others, and PM Johnson's Conservatives increased their majority in parliament. While they had no perceptible market impact, the U.S. House voted to impeach President Trump and pass the updated USMCA trade agreement. With the trade developments sparking hopes for an economic renaissance at a time when central bankers show little urgency to slow it down, stocks rose to new all-time highs and the Treasury curve shifted to its steepest level since June 2018. The S&P 500 rose 2.9% to increase its annual gain to 28.9%, its best year since 2013. With expectations for short-term rates essentially locked in place by the Fed, the 2-year yield edged back 4.3 bps to 1.57%. In response to the renewed growth optimism, the 10-year yield added 14.2 bps to 1.92%, steepening the related spread to more than 34 bps, the widest since June 2018. For all of 2019, however, the 2-year yield dropped 92 bps while the 10-year yield pulled back 77 bps.

Consumer: November's retail sales report was soft and initial jobless claims hit a more-than-two-year high in early December. However, official consumer spending data offered a stronger signal than the retail sales data and the uptick in jobless claims was mostly blamed on statistical noise caused by the late Thanksgiving holiday. Further keeping optimism around the consumer upbeat, November's jobs report was stronger than expected, even excluding a temporary boost from GM workers returning after a strike, and the hourly earnings trend looked slightly firmer than before considering positive revisions. Additionally, job openings rose more than expected, personal income topped estimates, and both key confidence measures improved to close out 2019.

Private Investment: Keeping with the recent trend, business-sector indications in the latest round of data remained weak. Both ISM indexes fell more than expected in November and actual spending disappointed. Capital goods orders met expectations for a modest 0.1% gain but shipments contracted unexpectedly. The regional Fed surveys were mixed but the balance tilted towards softer activity. Looking ahead, the more timely Markit PMIs pointed to slight improvement in the services sector but stagnant manufacturing, while small business confidence perked up more than expected on broadly firmer details. The housing reports were mixed but the overall tone continued to reflect a benefit from the earlier drop in mortgage rates. Encouragingly, builder confidence and new building permits improved to new highs for the cycle.

External Trade: The overall trade deficit shrank more than expected in October and an early reading for November showed the goods deficit continued that trend. The advance goods trade deficit shrank to a three-year low as imports declined and exports inched marginally higher.

Inflation: After giving the Fed leeway to ease policy in 2019, inflation pressures appeared to remain muted near the end of the year. The central bank's preferred core PCE gauge rose a modest 0.14% MoM in November and the YoY rate cooled for a third month to a below-target 1.61%.

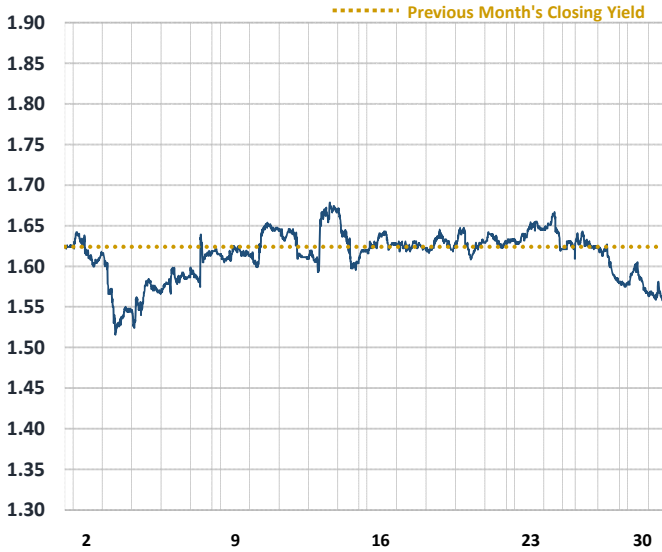
Monetary Policy: The Fed left rates at 1.50% to 1.75% as expected and said "the current stance of monetary policy is appropriate." The lack of urgency to adjust rates further after three rate cuts was reinforced by the updated dot plot and Chair Powell's press conference. Thirteen of the 17 officials expect rates to remain unchanged in 2020, a likely outcome Powell said would be changed only by a "material reassessment" of the outlook or a "significant move up in inflation that is persistent."

Monthly Review

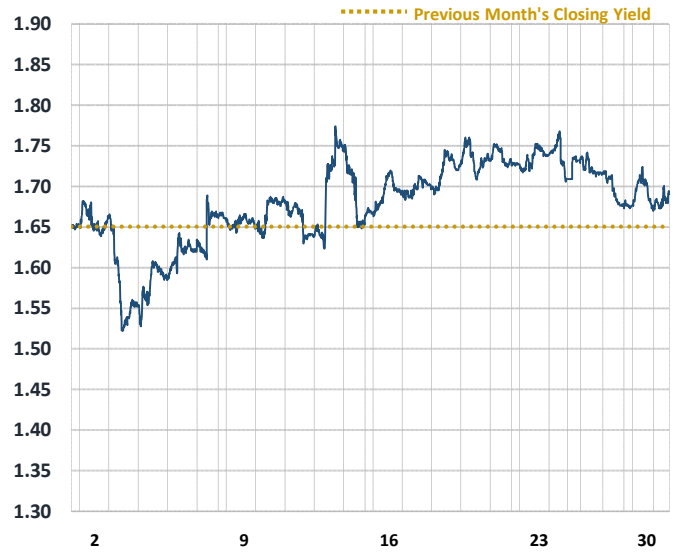
December 2019

Stocks Set New Records and the Yield Curve Steepened as Trade Tensions Eased and Fed Reaffirmed its Policy Pause

2-Year Treasury Note Yield - December 2019



5-Year Treasury Note Yield - December 2019



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

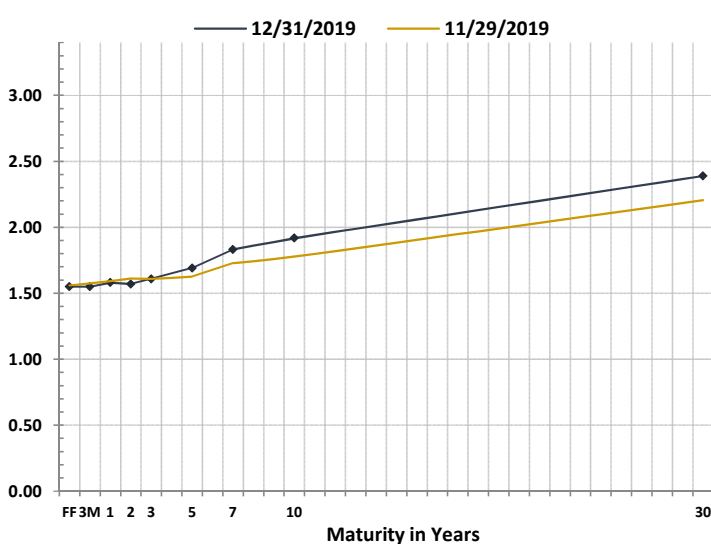


Monthly Review

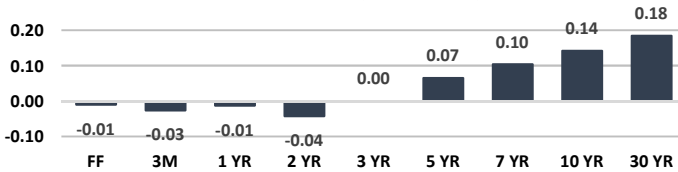
December 2019

Stocks Set New Records and the Yield Curve Steepened as Trade Tensions Eased and Fed Reaffirmed its Policy Pause

Treasury Month-Over-Month



Month-Over-Month Change in Treasury Yields



Global Stock Performance

	Value	MTD Change	QTD Change	YTD Change
Dow Jones	28,538	1.74% ↑	6.02% ↑	22.34% ↑
S&P 500	3,231	2.86% ↑	8.53% ↑	28.88% ↑
Nasdaq	8,973	3.54% ↑	12.17% ↑	35.23% ↑
Stoxx Europe 600	416	2.06% ↑	5.77% ↑	23.16% ↑
China CSI 300	4,097	7.00% ↑	7.39% ↑	36.07% ↑
Nikkei 225	23,657	1.56% ↑	8.74% ↑	18.20% ↑

Global Sovereign Debt Performance

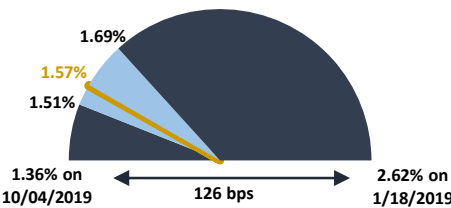
	Yield	MTD Change (in bps)	QTD Change (in bps)	YTD Change (in bps)
U.S. 2-year	1.57%	-4.3 ↓	-5.3 ↓	-91.9 ↓
U.S. 5-year	1.69%	6.5 ↑	14.7 ↑	-82.0 ↓
U.S. 10-year	1.92%	14.2 ↑	25.3 ↑	-76.7 ↓
German 10-year	-0.19%	17.5 ↑	38.6 ↑	-42.7 ↓
U.K. 10-year	0.82%	12.5 ↑	33.4 ↑	-45.5 ↓
French 10-year	0.12%	16.7 ↑	39.2 ↑	-59.2 ↓
Italian 10-year	1.41%	18.1 ↑	59.0 ↑	-133.0 ↓
Japanese 10-year	-0.01%	6.2 ↑	20.2 ↑	-1.4 ↓

Commodity Performance

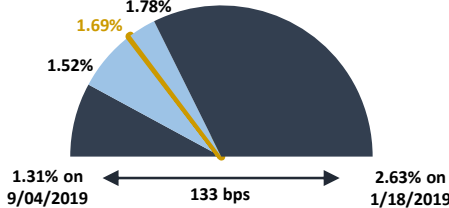
	Value	MTD Change	QTD Change	YTD Change
WTI Crude	\$ 61.06	10.68% ↑	12.93% ↑	34.46% ↑
U.S. Dollar	96.39	-1.92% ↓	-3.01% ↓	0.22% ↑
Gold Spot	1,517	3.64% ↑	3.05% ↑	18.31% ↑
Commodity Index	80.89	4.90% ↑	4.00% ↑	5.44% ↑

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

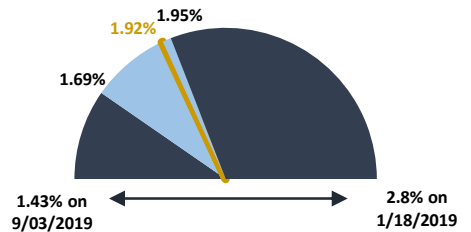
2-Year Treasury



5-Year Treasury



10-Year Treasury



Nonfarm Payrolls

November 266k



November was better than expected, even excluding a boost from workers returning from GM strike

Unemployment Rate

November 3.5%
Down 0.1%



Existing Home Sales MoM

November -1.7%



New Home Sales MoM

November 1.3%



Core Retail Sales

November 0.1%



Consumer Confidence

December 126.5
Down 0.3 pts



ISM Non-Manufacturing

November 53.9
-0.8 pts



Both ISM reports were weaker than expected

ISM Manufacturing

November 48.1
-0.2 pts



Manufacturing Production

November 1.1%



Auto rebound after GM strike ended overstated strength of still-solid results

Core Capital Goods Orders

November 0.1%



Orders matched estimates but shipments contracted unexpectedly

Trade Balance

October -47.2B
+3.9B



Core PCE YoY

November 1.6%
Down 0.05%



Cooled for a third month

INTENDED FOR INSTITUTIONAL INVESTORS ONLY. The information included herein has been obtained from sources deemed reliable, but it is not in any way guaranteed, and it, together with any opinions expressed, is subject to change at any time. Any and all details offered in this publication are preliminary and are therefore subject to change at any time. This has been prepared for general information purposes only and does not consider the specific investment objectives, financial situation and particular needs of any individual or institution. This information is, by its very nature, incomplete and specifically lacks information critical to making final investment decisions. Investors should seek financial advice as to the appropriateness of investing in any securities or investment strategies mentioned or recommended. The accuracy of the financial projections is dependent on the occurrence of future events which cannot be assured; therefore, the actual results achieved during the projection period may vary from the projections. Interest rate swaps and derivatives are offered and sold via Vining Sparks Interest Rate Products, LLC. The firm may have positions, long or short, in any or all securities mentioned. Member FINRA/SIPC.