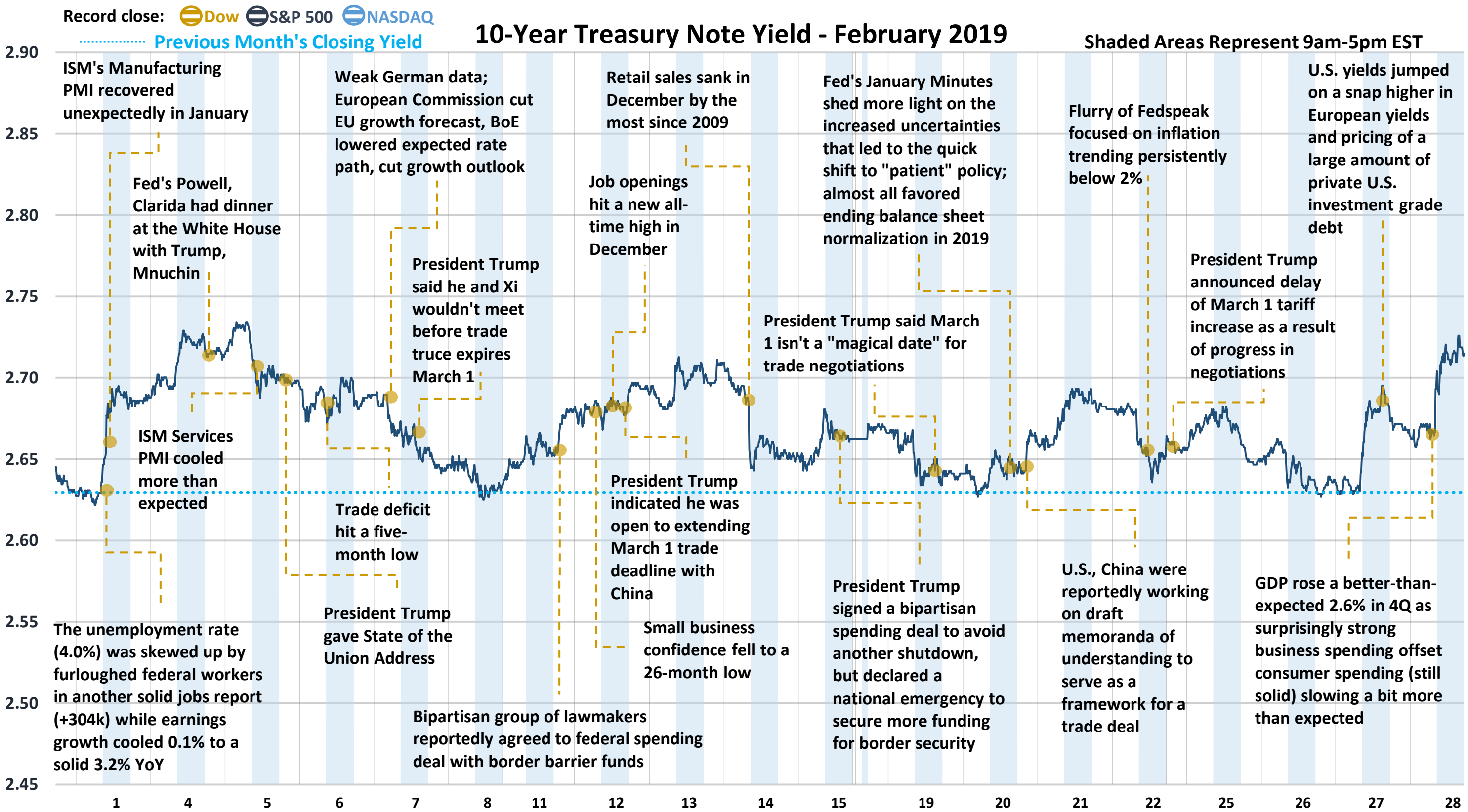
Monthly Review

February 2019

Shaky Economic Data Justified the Fed's Patience and Kept Longer Rates Locked in Their Tightest Range in Decades



Mixed Economic Data Neutralized Trade Progress, Justifying the Fed's Plan for Patience and Keeping the 10-Year Treasury Yield in Its Tightest Range in 40 Years

Markets: The 10-year Treasury yield reflected February's macro story, as mixed economic data justified the Fed's patience amid a number of crosscurrents that have clouded the near-term outlook. The Fed Minutes listed out the uncertainties officials are watching and announced that almost everyone supports ceasing the roll-off of its securities portfolio in 2019. A second government shutdown was averted and a tariffs increase planned for March 1 was suspended indefinitely in response to progress in trade negotiations. The global economy continued to look shaky and a disastrous December for U.S. consumer spending somewhat offset a better-than-expected GDP report, keeping investors anxiously awaiting more clarity from the incoming data in the weeks ahead. Paralyzed by the uncertainty and mixed messaging, the 10-year yield traded within an 11.6 bps range, the tightest since March 1979. The Treasury curve finished higher and steeper, with the spread between the 2- and 10-year yields ending at 19.9 bps, the steepest of 2019. Stocks crept higher, with the Dow gaining 3.7% and capping a nine-week run of positive gains, its best stretch since May 1995.

Consumer: December's retail sales report, previously delayed by the government shutdown, was an unequivocal disappointment. Lower gas prices helped drive total retail sales down 1.2%, the most since September 2009, while core group sales that feed into GDP matched their biggest monthly drop since 2000. December's weakness led to a larger-than-expected slowdown in personal consumption to a still-respectable 2.8%. While the data stirred up anxieties of an unexpected slowdown in consumer spending, more timely data somewhat offset those worries. The labor market data remained strong with another impressive jobs report (+304k) and a new record number of job openings. An uptick in the unemployment rate was dismissed as a temporary effect of furloughed federal workers and wages continued to grow at a greater-than 3% rate. Also easing concerns, both measures of consumer confidence recovered in February.

Private Investment: Indicators for business spending were generally weaker. Excepting a better-than-estimated manufacturing ISM, the services ISM cooled more than expected, capitals goods data disappointed, manufacturing output posted the fourth largest decline of the cycle, and business optimism slid to a 26-month low. However, stronger activity earlier in the quarter helped lift business investment a solid 6.2% in 4Q. Housing remained soft. Residential investment contracted for a fourth quarter in a row. Existing home sales fell to their weakest pace since November 2015, housing starts plunged to their lowest level since February 2016, and home price gains continued to slow. However, home builder confidence, mortgage applications, and pending sales all improved, a sign lower rates may be starting to have a positive effect.

External Trade: Trade dragged 0.2% from 4Q growth as tensions remained elevated between the U.S. and China at the end of 2018. November's total trade deficit was the lowest in five months as imports and exports contracted while December's goods deficit expanded to its widest level on record.

Inflation: December's PCE inflation report was pushed to March 1 but January's CPI report reflected broadly firmer prices. Core prices rose 0.24% MoM which helped keep the YoY rate at 2.2%.

Monetary Policy: Fedspeak was abundant with official after official signaling support for the Fed's January shift to patiently waiting for incoming data to guide the rate path in one direction or another. The Fed's January Minutes detailed the downside risks that, when combined with a lack of inflation pressures, led to the sudden shift on policy. In addition, the Minutes noted that almost every official was in favor of ending balance sheet normalization in 2019. The Bank of England lowered its expected rate path and trimmed its growth outlook in the face of intensifying Brexit risks and slower global growth.

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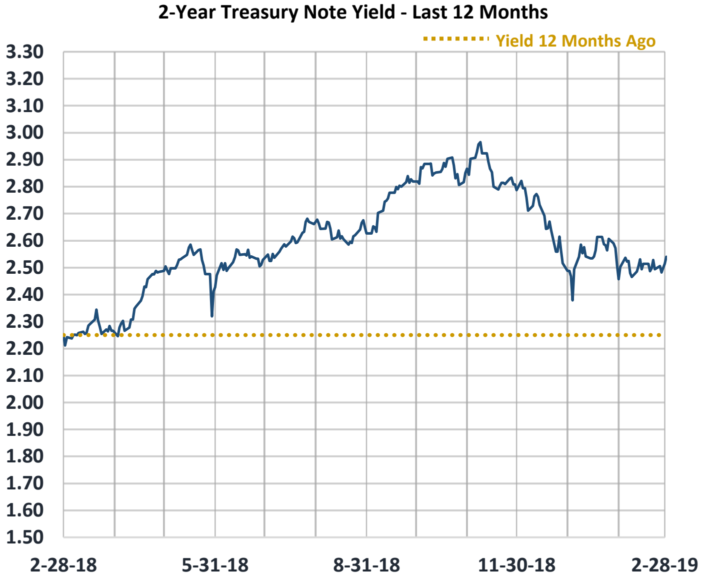
2-Year Treasury Note Yield - February 2019

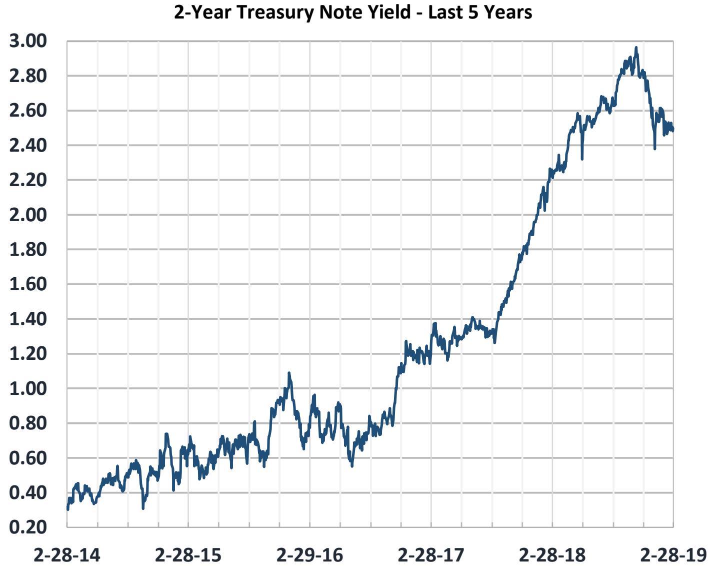
5-Year Treasury Note Yield - February 2019

2-Year Treasury Note Yield - Last 12 Months

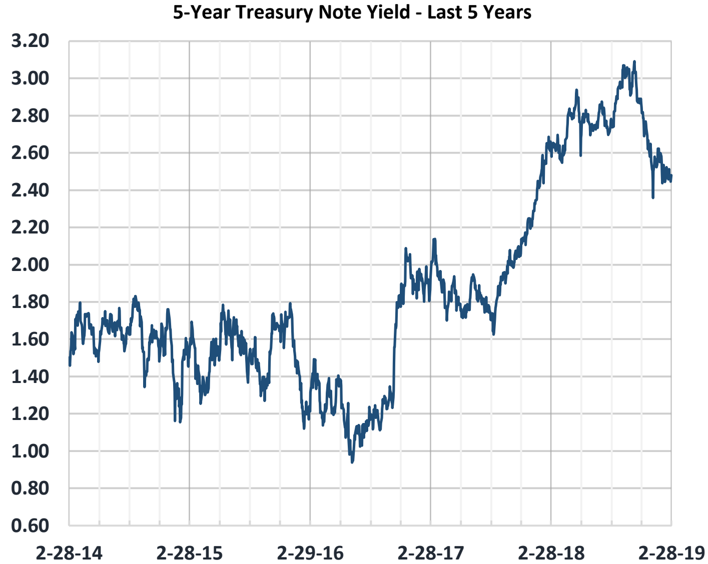


5-Year Treasury Note Yield - Last 12 Months

2-Year Treasury Note Yield - Last 5 Years



5-Year Treasury Note Yield - Last 5 Years



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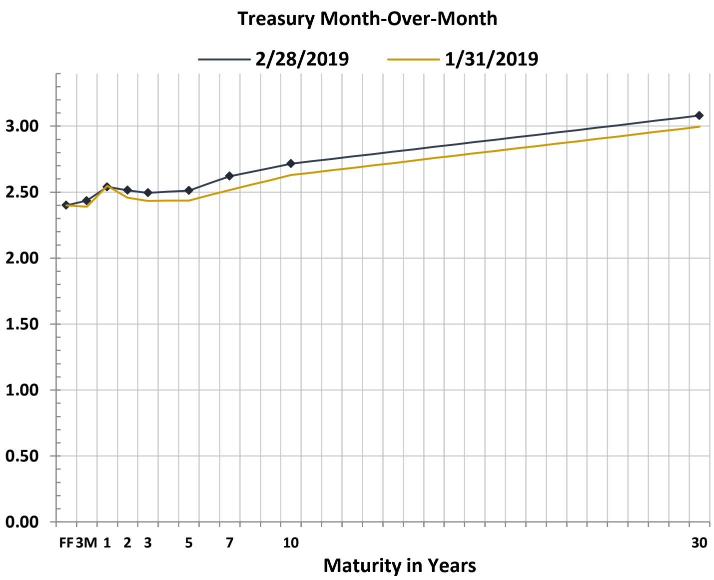
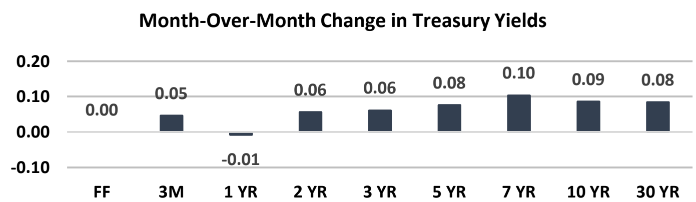




Global Stock Performance

	Value	MTD Change	QTD Change	YTD Change
Dow Jones	25,916	3.67% ↑	11.10% ↑	11.10% ↑
S&P 500	2,784	2.97% ↑	11.08% ↑	11.08% ↑
Nasdaq	7,533	3.44% ↑	13.52% ↑	13.52% ↑
Stoxx Europe 600	373	3.94% ↑	10.41% ↑	10.41% ↑
China CSI 300	3,669	14.61% ↑	21.88% ↑	21.88% ↑
Nikkei 225	21,385	2.94% ↑	6.85% ↑	6.85% ↑

Global Sovereign Debt Performance

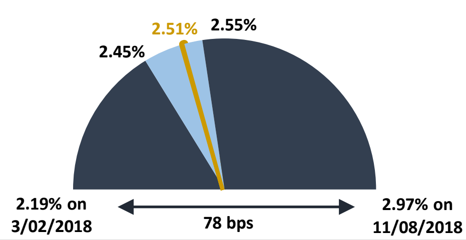
	Yield	MTD Change *(in bps)*	QTD Change *(in bps)*	YTD Change *(in bps)*
U.S. 2-year	2.51%	5.7 ↑	2.6 ↑	2.6 ↑
U.S. 5-year	2.51%	7.6 ↑	0.1 ↑	0.1 ↑
U.S. 10-year	2.72%	8.6 ↑	3.1 ↑	3.1 ↑
German 10-year	0.18%	3.4 ↑	-5.9 ↓	-5.9 ↓
U.K. 10-year	1.30%	8.3 ↑	2.5 ↑	2.5 ↑
French 10-year	0.57%	1.5 ↑	-14.1 ↓	-14.1 ↓
Italian 10-year	2.75%	16.3 ↑	1.0 ↑	1.0 ↑
Japanese 10-year	-0.02%	-2.7 ↓	-2.5 ↓	-2.5 ↓

Commodity Performance

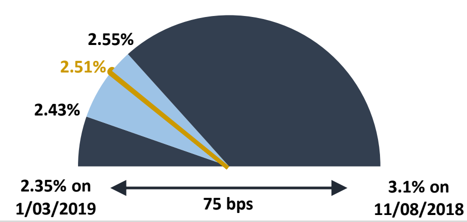
	Value	MTD Change	QTD Change	YTD Change
WTI Crude	$ 57.22	6.38% ↑	26.01% ↑	26.01% ↑
U.S. Dollar	96.16	0.61% ↑	-0.02% ↓	-0.02% ↓
Gold Spot	1,313	-0.60% ↓	2.41% ↑	2.41% ↑
Commodity Index	81.39	0.82% ↑	6.09% ↑	6.09% ↑

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

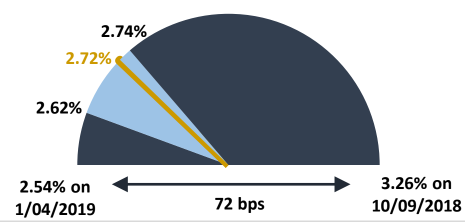
2-Year Treasury



5-Year Treasury



10-Year Treasury



Nonfarm Payrolls
January
304k

Unemployment Rate
January
4.0%
Up 0.1%

Furloughed federal workers caused an uptick in unemployment; hiring and wages remained solid

Existing Home Sales MoM
January
-1.2%

New Home Sales MoM
Delayed by shutdown

Existing home sales slipped to their weakest level in 38 months (November 2015); January's new home sales were delayed

Core Retail Sales
December
-1.7%

Matched the worst decline since 2000

Consumer Confidence
February
131.4
Up 9.7 pts

ISM Non-Manufacturing
January
56.7
-1.3 pts

ISM Manufacturing
January
56.6
+2.3 pts

Manufacturing Production
January
-0.9%

Fourth largest drop of the cycle

Core Capital Goods Orders
December
-1.0%

Trade Balance
November
-49.3B

Lowest deficit in five months

Core PCE YoY
December
1.9%