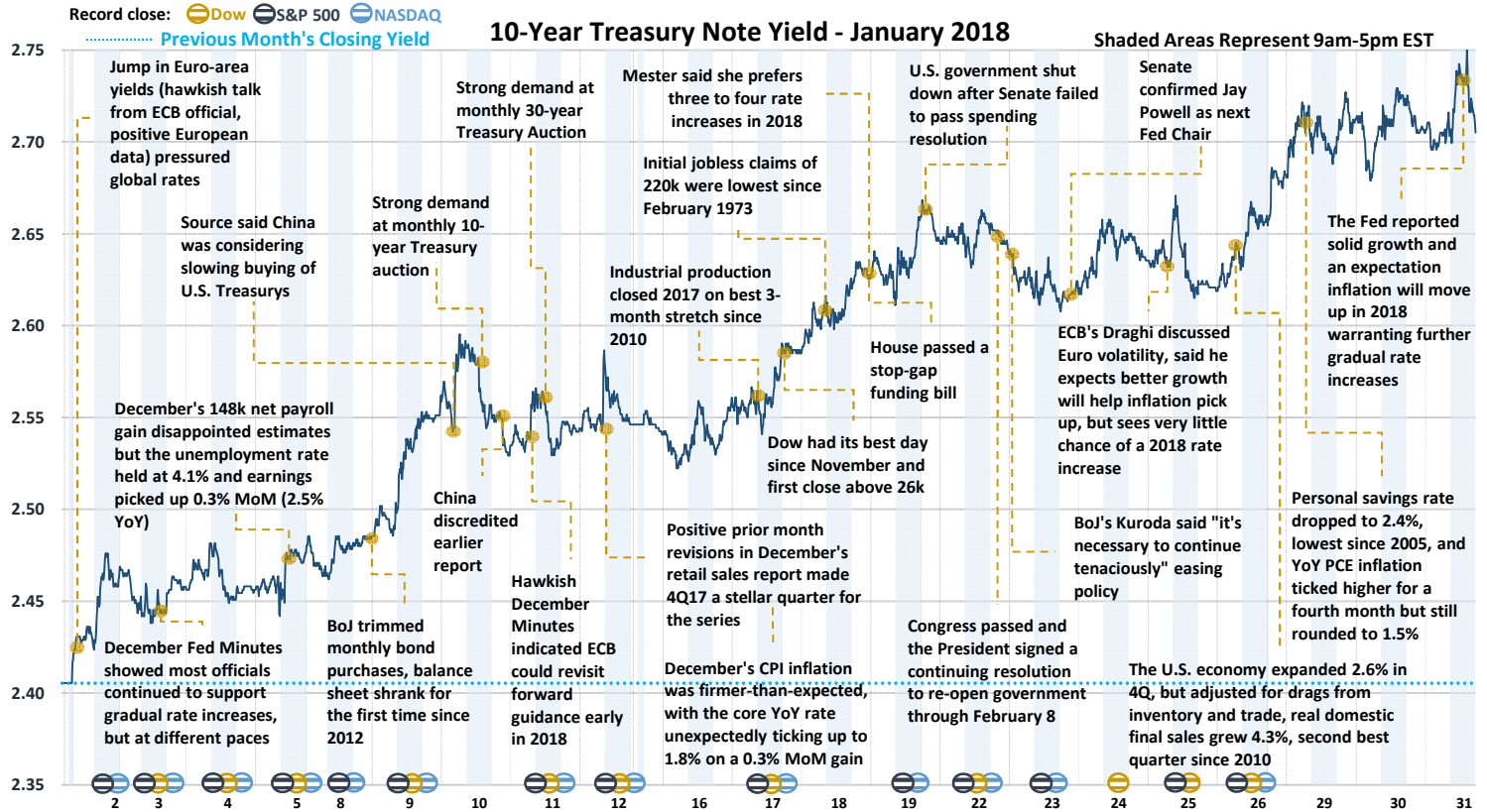


# Monthly Review

January 2018

Equities and Yields Surged in January on More Signs of Global Growth and Speculation of Less Central Bank Accommodation



## Stocks Extended Their Impressive Run as Tax-Cut Optimism and Positive Corporate Earnings Helped Absorb a Nervousness Created by a Rapid Rise in Interest Rates

**Markets:** The S&P 500 added another 5.6% in January, its best month since March 2016, and tallied 14 new record closes, the most in a month since 1955. According to Thomson Reuters, 80% of companies that reported in January posted earnings that exceeded expectations. The S&P 500 has now strung together 10 consecutive monthly gains, the longest run since 1959. However, volatility reemerged late with the index enduring its most volatile three days since the election. In part, the nerves were driven by an acceleration of the sovereign sell-off that began last September. The 2-year Treasury yield rose 26 bps to a new cycle high of 2.14%. The 5-year yield finished up 31 bps at 2.51%, the most yield since April 2010, and the 10-year yield climbed 30 bps to 2.71%, its highest since April 2014. Each change was the biggest since the election. Additional signs of improving growth and prospects for an extra boost from tax cuts reawakened markets to the reality that the days of easy global monetary policy may be numbered. That reality was reaffirmed by the upbeat tone in the Fed's January Statement and fed funds futures ended January pricing in a 78% chance of three 2018 hikes.

**Consumer:** Personal consumption grew 3.8% in 4Q, the best quarter since 2014, and helped lead a 2.6% expansion of the broader economy. Consumers ramped up spending in late 2017 which, paired with continued modest wage gains, dropped the savings rate to 2.4%, the lowest since 2005. The solid spending was consistent with consumer confidence measures that remained near the top of their cyclical ranges despite mixed monthly results. With savings at a 12-year low, the sustainability of strong consumer spending will depend heavily on faster income growth. In December, hourly earnings rose 0.3% MoM but held steady at a 2.5% YoY rate. Total hiring was a relative disappointment (but ADP projected a January rebound of 234k), the unemployment rate held at 4.1%, and jobless claims returned to their lowest level since 1973.

**Private Investment:** Fixed investment rose 7.9% in 4Q on a 6.8% gain in business spending and an 11.6% surge in residential activity. Business spending on equipment strengthened for a fifth quarter and structures rebounded. Despite a pullback in business confidence, a positive outlook on the economy from corporate executives has been accompanied by many announcing employee bonuses, wage increases, and plans for increased capital spending after the tax bill became law. The weak spot in investment was inventory accumulation which ultimately dragged 0.7% from 4Q GDP but is expected to rebound as companies continue to enjoy strong consumer demand. Housing activity slowed in December from extremely strong levels in November but home builder confidence remained at its second strongest level since 1999.

**External Trade:** Trade was the biggest drag on 4Q growth, knocking 1.1% from total growth, but showed demand-positive total flows. A 7.0% increase in exports signaled solid global demand but was unable to keep up with an even stronger 13.9% improvement in imports.

**Inflation:** Core CPI was firmer than expected in December (0.3% MoM, 1.8% YoY), the Fed's preferred PCE measure rose for a fourth consecutive month (but still rounded to 1.5%), and market-based inflation expectations crossed above 2.00% for the first time since March.

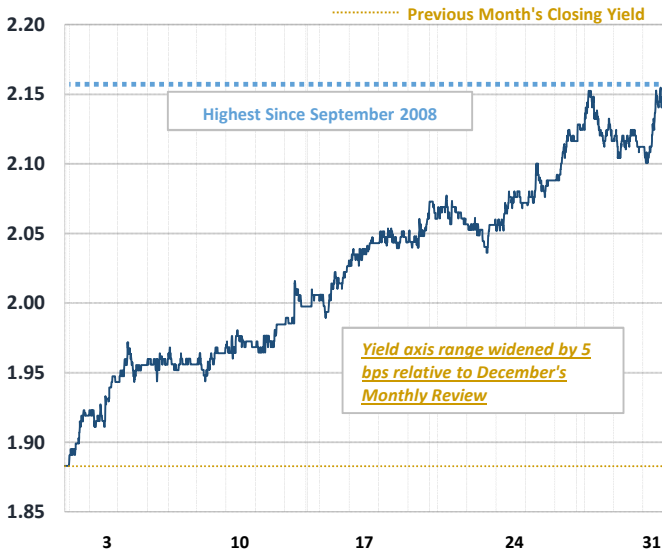
**Monetary Policy:** As expected, the Fed left its target range unchanged at 1.25-1.50% and reinforced the market's expectation for a March hike with a positive assessment of the economy and a call for inflation to move up in 2018. The decision was the last under Janet Yellen's leadership. Jay Powell will take over an incomplete Committee faced with four governor vacancies and just one pending nominee. The ECB didn't say when it expects to wrap up its QE program but markets latched onto positive comments from Draghi about growth and inflation to send yields higher with the Euro. The Bank of Japan trimmed its monthly bond purchases but Governor Kuroda dismissed it as an operational, saying it is necessary for the central bank "to continue tenaciously with the current powerful easing" of monetary policy.

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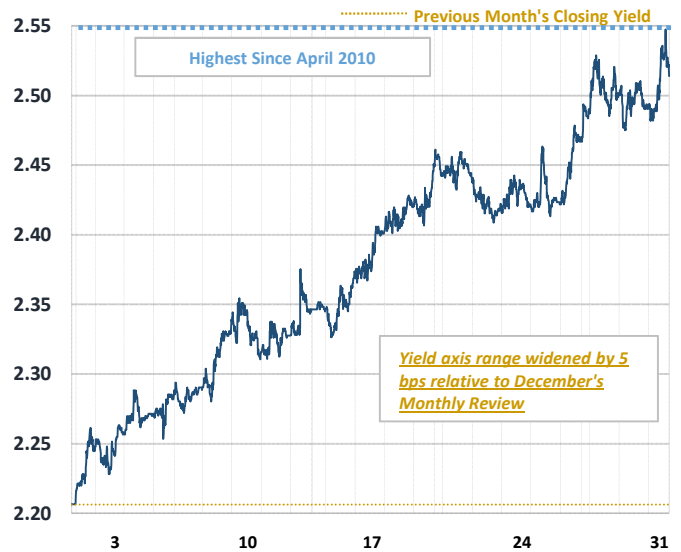
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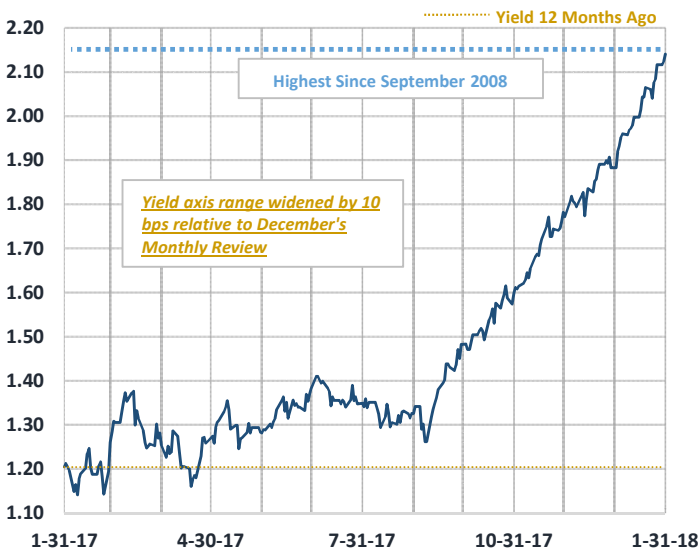
2-Year Treasury Note Yield - January 2018



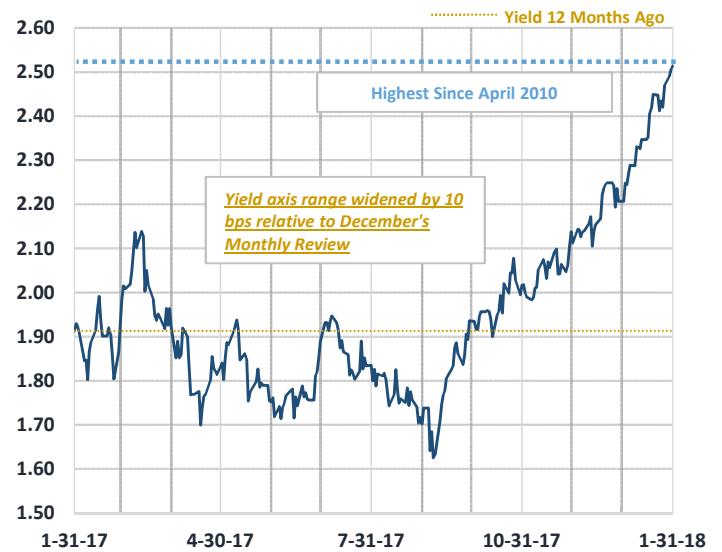
5-Year Treasury Note Yield - January 2018



2-Year Treasury Note Yield - Last 12 Months



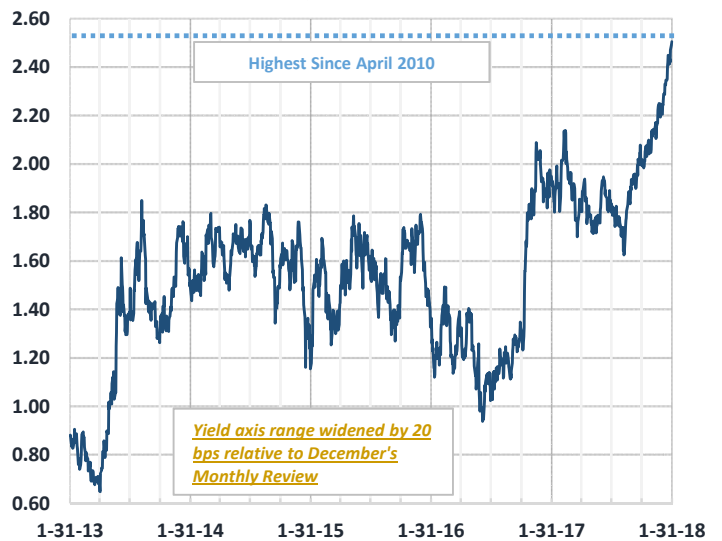
5-Year Treasury Note Yield - Last 12 Months



2-Year Treasury Note Yield - Last 5 Years



5-Year Treasury Note Yield - Last 5 Years

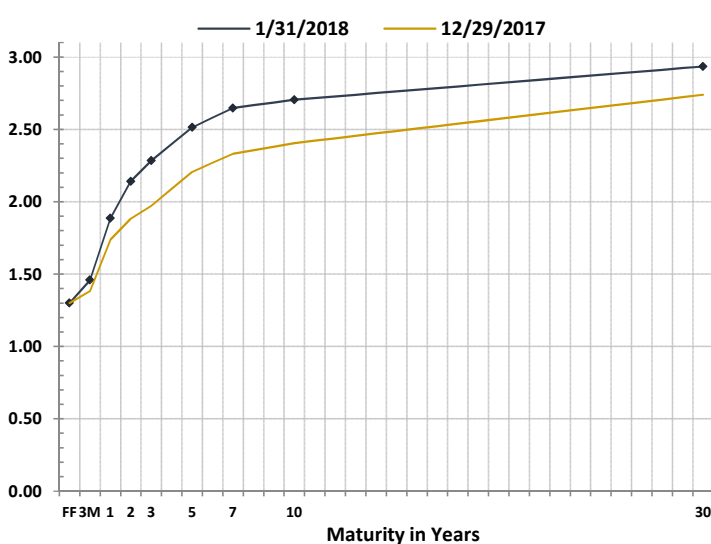


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Treasury Month-Over-Month



Month-Over-Month Change in Treasury Yields



Global Stock Performance

	Value	MTD Change	QTD Change	YTD Change
Dow Jones	26,149	5.79% ↑	5.79% ↑	5.79% ↑
S&P 500	2,824	5.62% ↑	5.62% ↑	5.62% ↑
Nasdaq	7,411	7.36% ↑	7.36% ↑	7.36% ↑
Stoxx Europe 600	395	1.61% ↑	1.61% ↑	1.61% ↑
China CSI 300	4,276	6.08% ↑	6.08% ↑	6.08% ↑
Nikkei 225	23,098	1.46% ↑	1.46% ↑	1.46% ↑

Global Sovereign Debt Performance

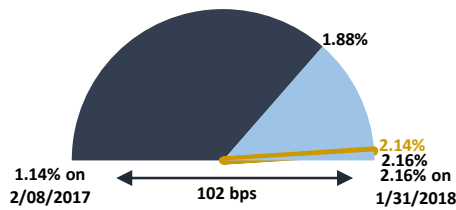
	Yield	MTD Change (in bps)	QTD Change (in bps)	YTD Change (in bps)
U.S. 2-year	2.14%	25.8 ↑	25.8 ↑	25.8 ↑
U.S. 5-year	2.51%	30.8 ↑	30.8 ↑	30.8 ↑
U.S. 10-year	2.71%	30.0 ↑	30.0 ↑	30.0 ↑
German 10-year	0.70%	27.0 ↑	27.0 ↑	27.0 ↑
U.K. 10-year	1.51%	32.0 ↑	32.0 ↑	32.0 ↑
French 10-year	0.97%	18.3 ↑	18.3 ↑	18.3 ↑
Italian 10-year	2.03%	1.3 ↑	1.3 ↑	1.3 ↑
Japanese 10-year	0.09%	3.7 ↑	3.7 ↑	3.7 ↑

Commodity Performance

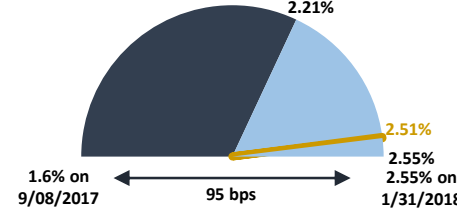
	Value	MTD Change	QTD Change	YTD Change
WTI Crude	\$ 64.73	7.13% ↑	7.13% ↑	7.13% ↑
U.S. Dollar	89.13	-3.25% ↓	-3.25% ↓	-3.25% ↓
Gold Spot	1,345	3.23% ↑	3.23% ↑	3.23% ↑
Commodity Index	89.80	1.85% ↑	1.85% ↑	1.85% ↑

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

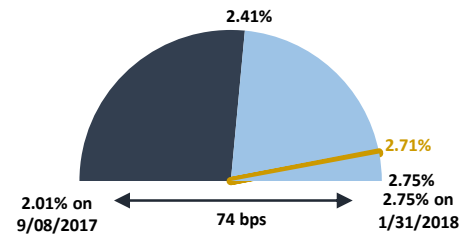
2-Year Treasury



5-Year Treasury



10-Year Treasury



Nonfarm Payrolls

December 148k

Unemployment Rate

December 4.1%  
Unchanged

Existing Home Sales MoM

December -3.6%

Housing data eased in December but from extremely strong, cycle-high levels in November

New Home Sales MoM

December -9.3%

Core Retail Sales

December 0.3%  
Wrapped up strongest calendar quarter since 2001

Consumer Confidence

January 125.4  
Up 2.3 pts

ISM Non-Manufacturing

December 56.0  
-1.3 pts

ISM Manufacturing

December 59.3  
+1.1 pts

ISM reports were mixed to close 2017; Manufacturing measure rose to its second strongest level since 2004

Manufacturing Production

December 0.1%

Core Capital Goods Orders

December -0.3%  
Monthly miss was offset somewhat by prior month revision

Trade Balance

November -50.5B  
-1.6B

Core PCE YoY

December 1.5%  
Up 0.03%  
Fourth month of a firmer YoY rate

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