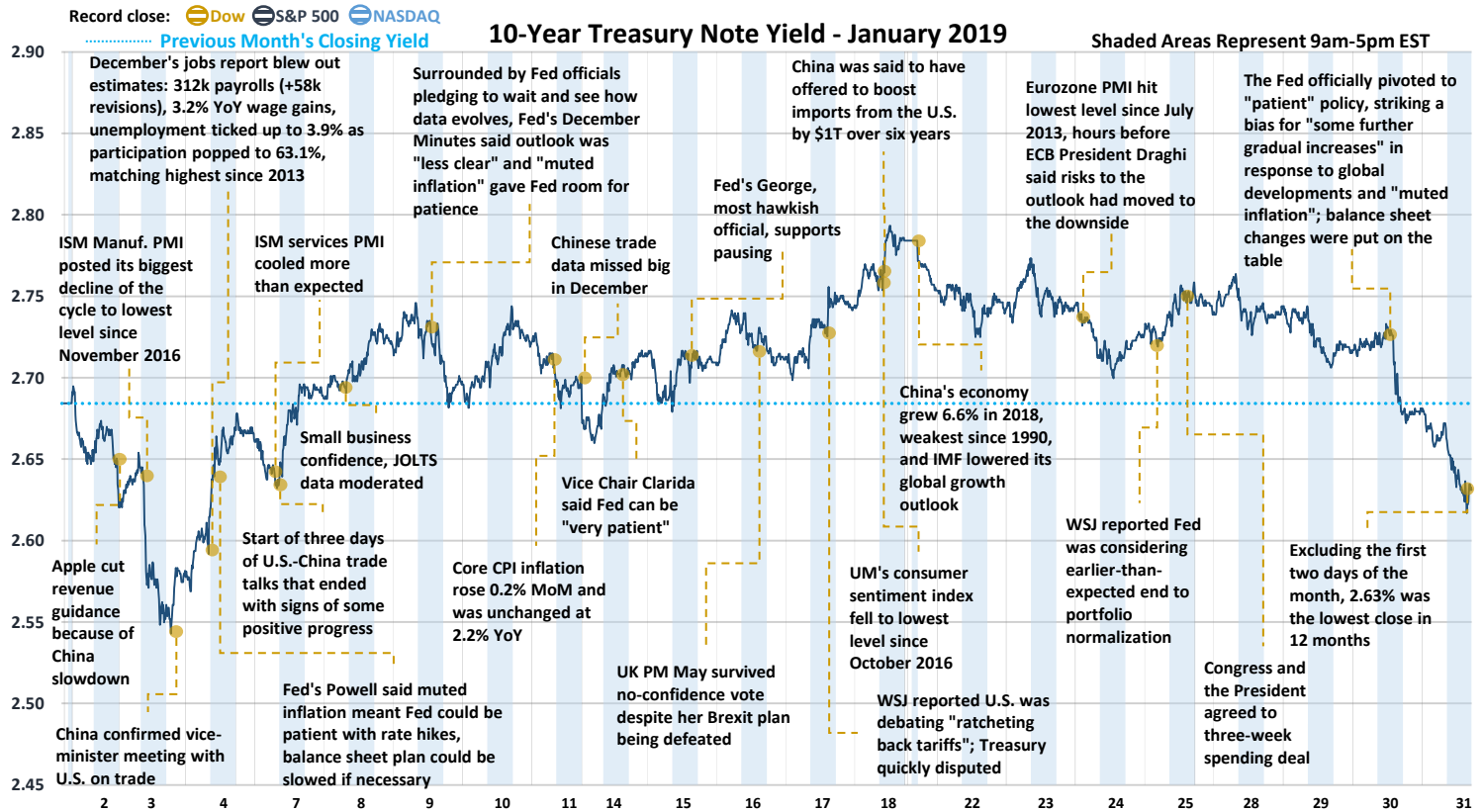


# Monthly Review

January 2019

Yields Fell on Fed's Pivot to Patience Which, Combined with Hopes for a Trade Deal, Sent Stocks Surging in January



## Stocks Ripped Higher and Treasury Yields Declined as the Fed Officially Pivoted Away from Its Bias for Higher Rates Towards a Plan for Patience Moving Forward

**Markets:** The S&P 500 followed up its worst December since the Great Depression (1931) with its best January since 1987 (best month since 2015). Despite signs the global economy continued to struggle to start 2019, the index rose 7.9% as the U.S. and China appeared to make positive progress in trade negotiations and the Fed signaled a policy paradigm change. Several positive news reports split two separate trade meetings that ended with positive posturing as negotiations move on and closer to the March 1 deadline. Also lifting spirits, more dovish rhetoric from a chorus of Fed officials throughout the month culminated with an official pivot towards patience and a pause in the January 30 FOMC Statement. The resultant rebound in optimism unfolded notwithstanding more disappointing growth metrics from China and the EU and a more opaque U.S. outlook caused by the extensive list of U.S. data delayed by the government shutdown. Treasury yields rose with stocks early but split lower after the Fed's pivot. The 2-year yield ticked down 3 bps to 2.46%, its lowest month-end close since May 2018. Fed Funds futures finished believing the Fed's pause will be permanent, pricing in a greater probability that the next move will be a rate cut. The 10-year yield fell 5.5 bps to 2.64%, its lowest month-end close since December 2017.

**Consumer:** The two primary reports tracking consumer spending, December's retail sales and personal spending, were delayed as a result of the government shutdown. As a result, economists and investors were forced to lean on anecdotal evidence from corporate earnings releases and the Fed's Beige Book discussion. A surprisingly strong jobs report (+312k and +58k in revisions) included 3.2% earnings growth, a new high for the cycle, and a pick-up in participation that showed the labor market has so far remained insulated from signs of slowing elsewhere. The robust report also helped somewhat counter two extremely disappointing confidence reports. The University of Michigan's sentiment index slipped to its lowest level since October 2016 while the Conference Board's index fell to an 18-month low on deteriorating expectations.

**Private Investment:** The capital goods data, a key indicator for business equipment spending, were delayed by the government shutdown while other activity metrics were mixed. The ISM's non-manufacturing PMI cooled more than expected while the manufacturing PMI posted its largest decline of the cycle to its lowest level since November 2016. However, actual manufacturing output rose 1.1%, on the strong side for the cycle, and regional Fed indices stabilized in January. Existing home sales sank to a more-than-three-year low and pending sales, which hit a near-five-year low, point to more softness ahead. While December's new homes sales remain delayed, November's gain was the strongest since 1992 and total sales hit an eight-month high as prices declined. Several separate metrics showed price gains continued to slow.

**External Trade:** All key trade data was delayed due to the shutdown.

**Inflation:** Lower energy prices dragged headline CPI 0.1% lower in December but core prices remained firm at 0.2% MoM and 2.2% YoY. The Fed's preferred PCE inflation report was delayed as a result of the shutdown.

**Monetary Policy:** Several consecutive weeks of numerous Fed officials sounding a more cautious tone on policy preceded an official pivot in the January 30 FOMC Statement. The Fed dropped its bias for "some further gradual increases" in favor of a phrase that "in light of global economic and financial developments and muted inflation," it "will be patient" in determining "what future adjustments...may be appropriate." They also signaled a willingness to alter the current balance sheet normalization plans if conditions warrant. Combined with Powell's dovish press conference, the decision was taken by markets to mean monetary policy was on hold indefinitely. The BoJ cut its inflation forecast and the ECB, which ended new asset purchases at the start of the year, said risks had moved to the downside.

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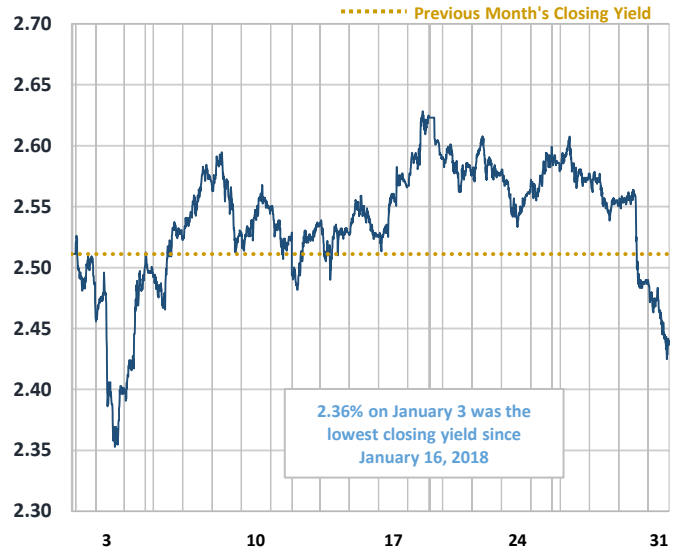
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2-Year Treasury Note Yield - January 2019



5-Year Treasury Note Yield - January 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

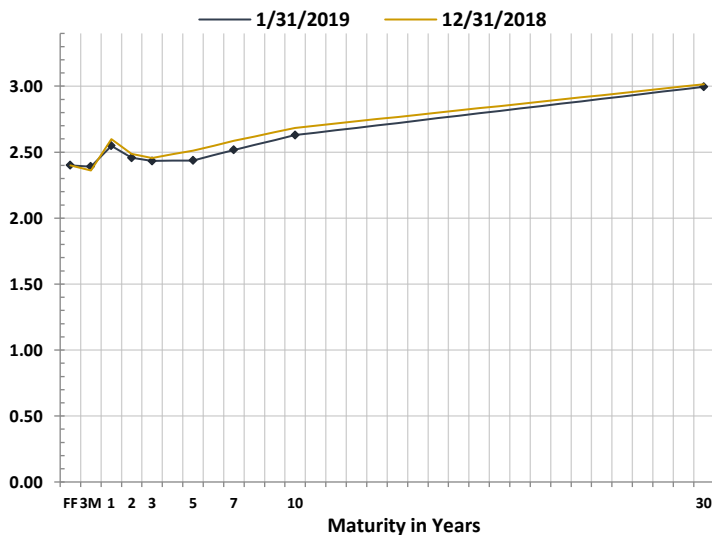


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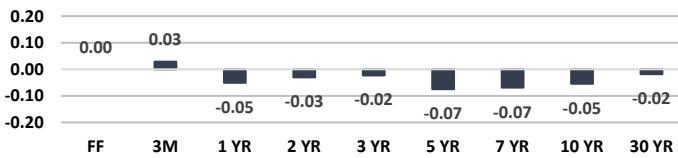
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Treasury Month-Over-Month



Month-Over-Month Change in Treasury Yields



Global Stock Performance

	Value	MTD Change	QTD Change	YTD Change
Dow Jones	25,000	7.17% ↑	7.17% ↑	7.17% ↑
S&P 500	2,704	7.87% ↑	7.87% ↑	7.87% ↑
Nasdaq	7,282	9.74% ↑	9.74% ↑	9.74% ↑
Stoxx Europe 600	359	6.23% ↑	6.23% ↑	6.23% ↑
China CSI 300	3,202	6.34% ↑	6.34% ↑	6.34% ↑
Nikkei 225	20,773	3.79% ↑	3.79% ↑	3.79% ↑

Global Sovereign Debt Performance

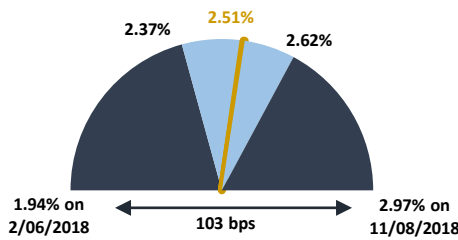
	Yield	MTD Change (in bps)	QTD Change (in bps)	YTD Change (in bps)
U.S. 2-year	2.46%	-3.0 ↓	-3.0 ↓	-3.0 ↓
U.S. 5-year	2.44%	-7.5 ↓	-7.5 ↓	-7.5 ↓
U.S. 10-year	2.63%	-5.5 ↓	-5.5 ↓	-5.5 ↓
German 10-year	0.15%	-9.3 ↓	-9.3 ↓	-9.3 ↓
U.K. 10-year	1.22%	-5.8 ↓	-5.8 ↓	-5.8 ↓
French 10-year	0.55%	-15.6 ↓	-15.6 ↓	-15.6 ↓
Italian 10-year	2.59%	-15.3 ↓	-15.3 ↓	-15.3 ↓
Japanese 10-year	0.01%	0.2 ↑	0.2 ↑	0.2 ↑

Commodity Performance

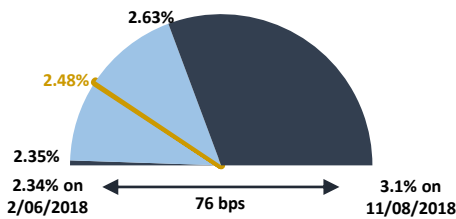
	Value	MTD Change	QTD Change	YTD Change
WTI Crude	\$ 53.79	18.45% ↑	18.45% ↑	18.45% ↑
U.S. Dollar	95.58	-0.62% ↓	-0.62% ↓	-0.62% ↓
Gold Spot	1,321	3.02% ↑	3.02% ↑	3.02% ↑
Commodity Index	80.73	5.23% ↑	5.23% ↑	5.23% ↑

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

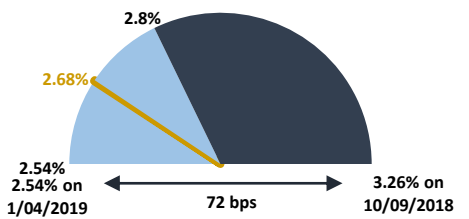
2-Year Treasury



5-Year Treasury



10-Year Treasury



Nonfarm Payrolls

December 222k

Unemployment Rate

December 3.9%  
Up 0.1%

Uptick in participation caused unemployment to rise; wage growth hit a new cycle high

Existing Home Sales MoM

December -6.4%

Existing home sales posted second largest decline since 2010 (weakest since 2015); new home sales surged the most since 1992 to eight-month high

New Home Sales MoM

November 16.9%

Core Retail Sales

Delayed by shutdown

Consumer Confidence

January 120.2

Down 6.4 pts  
18-month low

ISM Non-Manufacturing

December 58.0  
-2.4 pts

December's drop in the manufacturing PMI was the largest of the cycle

ISM Manufacturing

December 54.3  
-4.5 pts

Manufacturing Production

December 1.1%

Core Capital Goods Orders

Delayed by shutdown

Trade Balance

Delayed by shutdown

Core PCE YoY

Delayed by shutdown

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