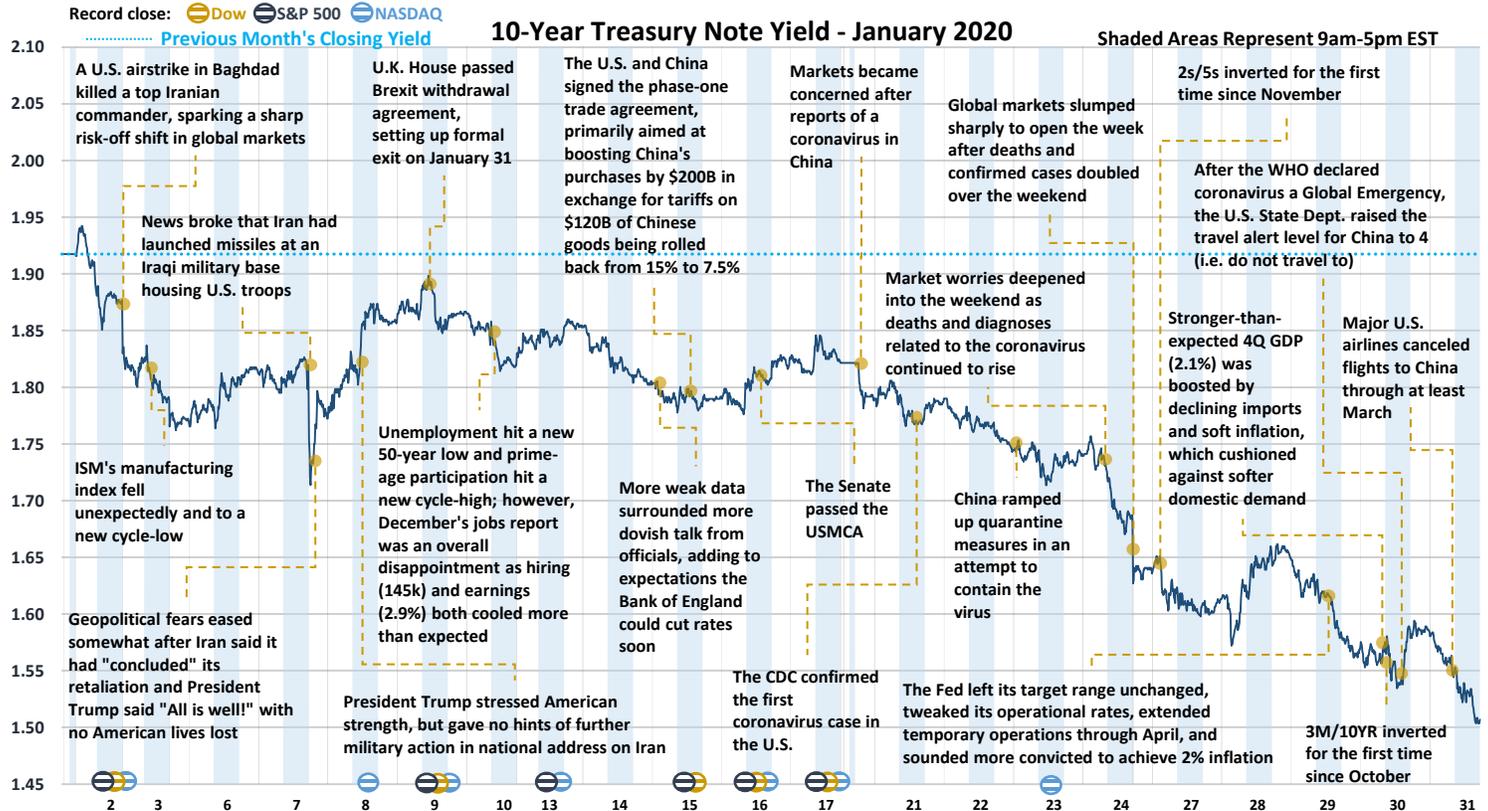


Monthly Review

January 2020

Yields Tumbled as Worries Grew that China's Novel Coronavirus Could Cause a Sudden Stop in Global Activity



Treasury Yields Tumbled in January as Initial Worries Caused by U.S. Tensions with Iran Were Compounded by Concerns around China's Deadly Coronavirus

Markets: U.S. equities and yields both posted solid gains to close out 2019 as trade tensions eased and the Fed solidified its plan to hold rates steady in 2020. However, sentiment soured quickly in January after U.S. tensions with Iran escalated and a deadly virus spread throughout China and leaked into other countries around the world. Yields dropped after the U.S. killed a top Iranian military official in Iraq, but leveled off after Iran struck an Iraqi base without a U.S. casualty. However, yields fell rapidly in the second half of the month after a report of a new coronavirus in China kicked off weeks of uncertainty, fueled by an increasing number of related deaths and diagnoses. While the novel coronavirus so far appears more contained to mainland China than the SARS outbreak of 2003, there is growing concern that the economic impact could be more severe considering China's increased importance to the global economy. The worries overwhelmed the signing of the trade deal, a Fed meeting, the Senate passing the USMCA and setting the stage for President Trump's impeachment acquittal, and the U.K. formally exiting the EU more than three years after the initial referendum. While stocks gave up record levels to end marginally lower, bigger moves were made in other markets. The 2-year yield slumped 26 bps to 1.31%, the lowest since September 2017, while the 10-year yield sank 41 bps to 1.51%, its lowest level in nearly five months. Adding to concerns, the 3-Month/10-year yield spread inverted for the first time since October. Oil prices sank more than 15% on global demand worries and China's yuan weakened to a seven-week low.

Consumer: Consumer spending slowed to 1.8% in the first estimate of 4Q GDP, and while December's retail sales report showed the weaker-than-expected trend pointed upwards heading into 2020, the payroll report signaled that activity may remain subdued. Unemployment set a new 50-year low at 3.50% and prime-age participation rose to a cycle-high. However, payroll growth was weaker than expected with negative revisions and wage growth slowed back below 3% for the first time in 17 months. Nonetheless, a steady labor market, further supported by low jobless claims, is expected to keep the consumer as the main engine of growth in 2020.

Private Investment: Trends in private investment were as expected in the 4Q GDP report with housing adding to growth again against a backdrop of lower mortgage rates and business investment contracting for a third quarter amid increased uncertainty. The most recent home sales reports were mixed. Housing starts surged and home builder confidence held up. However, new home sales weakened unexpectedly and a sharp decline in pending sales tarnished a stronger reading on current closings. The outlook for the business sector is no brighter after small business optimism fell unexpectedly and weakness in capital goods data pointed to more sluggishness ahead.

External Trade: Trade contributed 1.5% to growth in 4Q as imports declined 8.7% amid increased trade tensions, the most in a quarter in 10 years. Declining total U.S. trade flows have historically correlated with weaker global growth and reflect why concerns about negative effects of the trade war have grown.

Inflation: Weaker-than-expected inflation boosted real 4Q GDP and the Fed's preferred core measure remained below 1.6% in December, well below the 2% target.

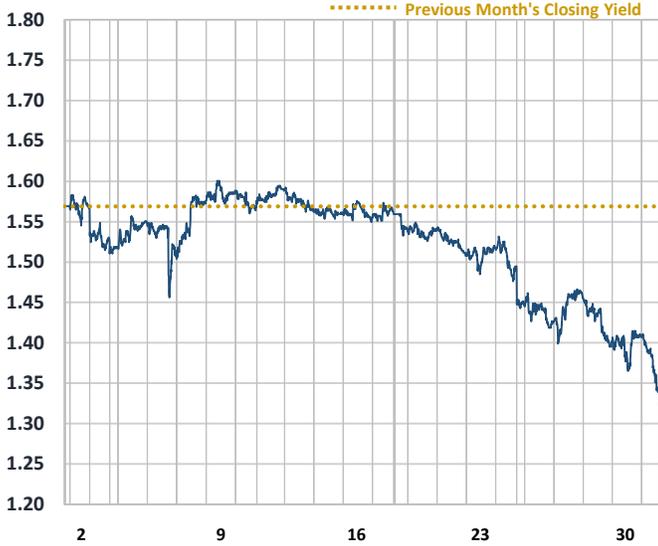
Monetary Policy: The Fed left its target at 1.50% to 1.75% as expected but voted on a mechanical adjustment to the actual rates it uses to facilitate an effective rate within that range. The only two wording changes to the Statement were to soften its assessment of the consumer and signal an increased conviction to push inflation up to 2%. As part of January's decision, officials extended temporary market operations through the end of April. As expected, the Bank of Japan and European Central Bank kept rates unchanged. Governor Kuroda said it's important to keep a stance "that has a conscious easing bias" while President Lagarde formally announced a policy framework review. To the surprise of some, the Bank of England also opted for steady policy even as they lowered the outlook for growth and inflation in response to weaker data.

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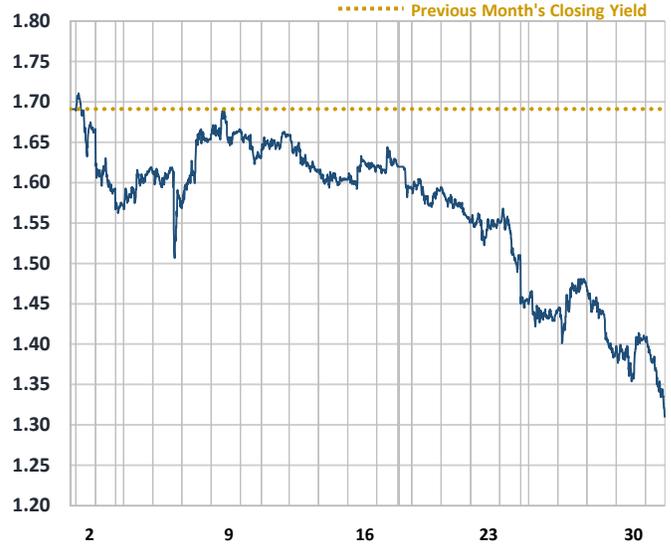
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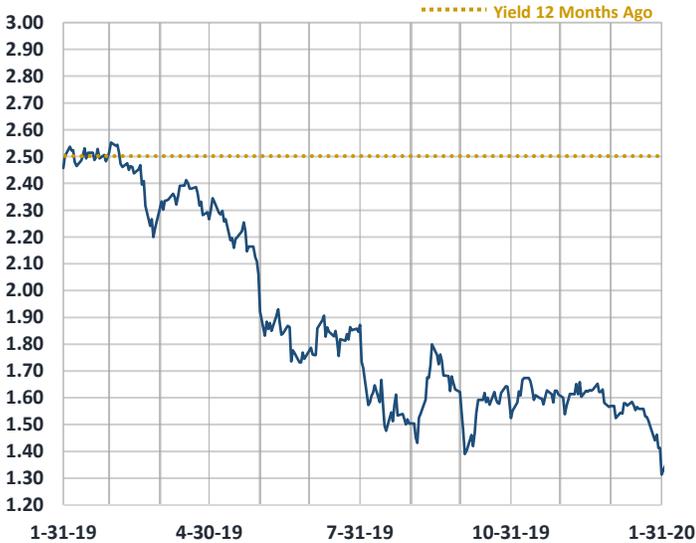
2-Year Treasury Note Yield - January 2020



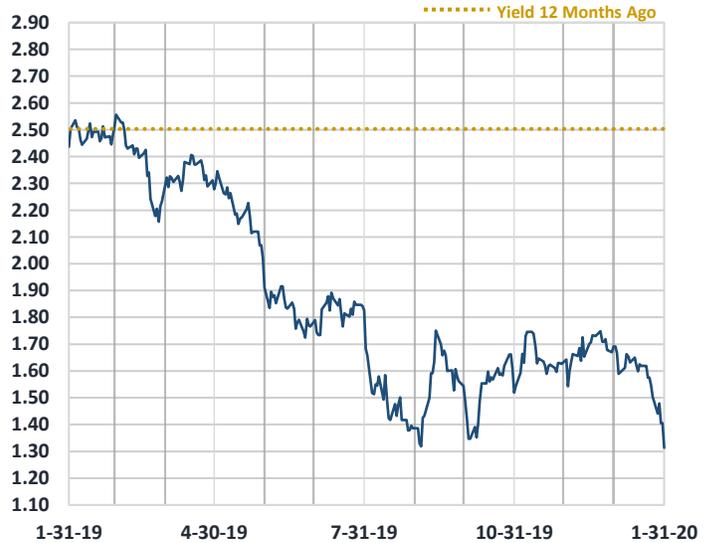
5-Year Treasury Note Yield - January 2020



2-Year Treasury Note Yield - Last 12 Months



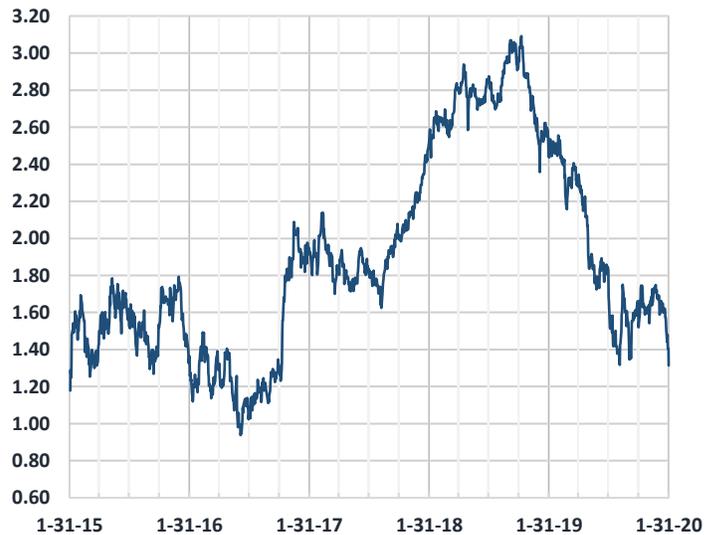
5-Year Treasury Note Yield - Last 12 Months



2-Year Treasury Note Yield - Last 5 Years



5-Year Treasury Note Yield - Last 5 Years

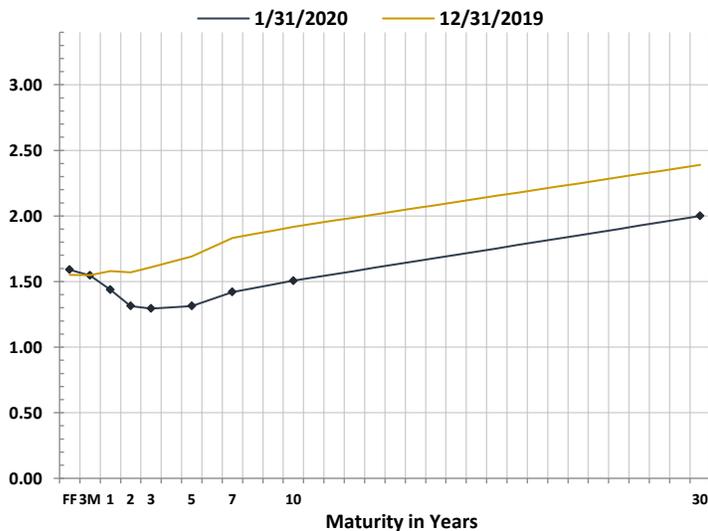


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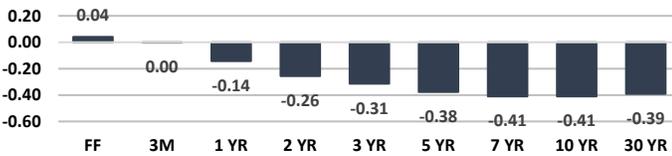
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Treasury Month-Over-Month



Month-Over-Month Change in Treasury Yields



Global Stock Performance

	Value	MTD Change	QTD Change	YTD Change
Dow Jones	28,256	-0.99% ↓	-0.99% ↓	-0.99% ↓
S&P 500	3,226	-0.16% ↓	-0.16% ↓	-0.16% ↓
Nasdaq	9,151	1.99% ↑	1.99% ↑	1.99% ↑
Stoxx Europe 600	411	-1.23% ↓	-1.23% ↓	-1.23% ↓
China CSI 300	4,004	-2.26% ↓	-2.26% ↓	-2.26% ↓
Nikkei 225	23,205	-1.91% ↓	-1.91% ↓	-1.91% ↓

Global Sovereign Debt Performance

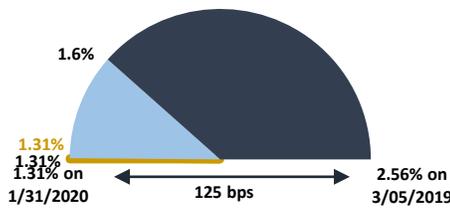
	Yield	MTD Change (in bps)	QTD Change (in bps)	YTD Change (in bps)
U.S. 2-year	1.31%	-25.6 ↓	-25.6 ↓	-25.6 ↓
U.S. 5-year	1.31%	-37.8 ↓	-37.8 ↓	-37.8 ↓
U.S. 10-year	1.51%	-41.1 ↓	-41.1 ↓	-41.1 ↓
German 10-year	-0.43%	-24.9 ↓	-24.9 ↓	-24.9 ↓
U.K. 10-year	0.52%	-29.8 ↓	-29.8 ↓	-29.8 ↓
French 10-year	-0.18%	-29.3 ↓	-29.3 ↓	-29.3 ↓
Italian 10-year	0.94%	-47.7 ↓	-47.7 ↓	-47.7 ↓
Japanese 10-year	-0.07%	-5.5 ↓	-5.5 ↓	-5.5 ↓

Commodity Performance

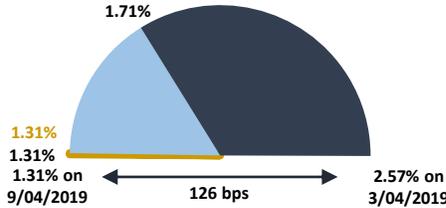
	Value	MTD Change	QTD Change	YTD Change
WTI Crude	\$ 51.56	-15.56% ↓	-15.56% ↓	-15.56% ↓
U.S. Dollar	97.39	1.04% ↑	1.04% ↑	1.04% ↑
Gold Spot	1,587	4.58% ↑	4.58% ↑	4.58% ↑
Commodity Index	74.84	-7.48% ↓	-7.48% ↓	-7.48% ↓

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

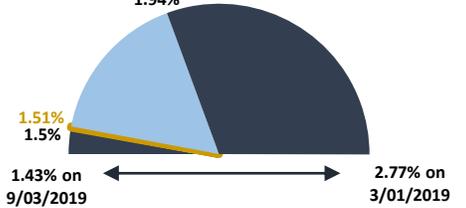
2-Year Treasury



5-Year Treasury



10-Year Treasury



Nonfarm Payrolls

December 145k

Despite a new 50-year low for unemployment, payroll growth and wages were weaker

Unemployment Rate

December 3.5%
Unchanged

Existing Home Sales MoM

December 3.6%

New Home Sales MoM

December -0.4%

Core Retail Sales

December 0.5%

Negative revisions offset solid December

Consumer Confidence

January 131.6
Up 3.4 pts

ISM Non-Manufacturing

December 54.9
+1 pts

Manufacturing PMI hit a new low for the cycle in December

ISM Manufacturing

December 47.8
-0.3 pts

Manufacturing Production

December 0.2%

Core Capital Goods Orders

December -0.9%

Orders and shipments both pointed to continued softness for the business sector

Trade Balance

November -43.1B
+3.9B

Core PCE YoY

December 1.6%
Up 0.05%

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