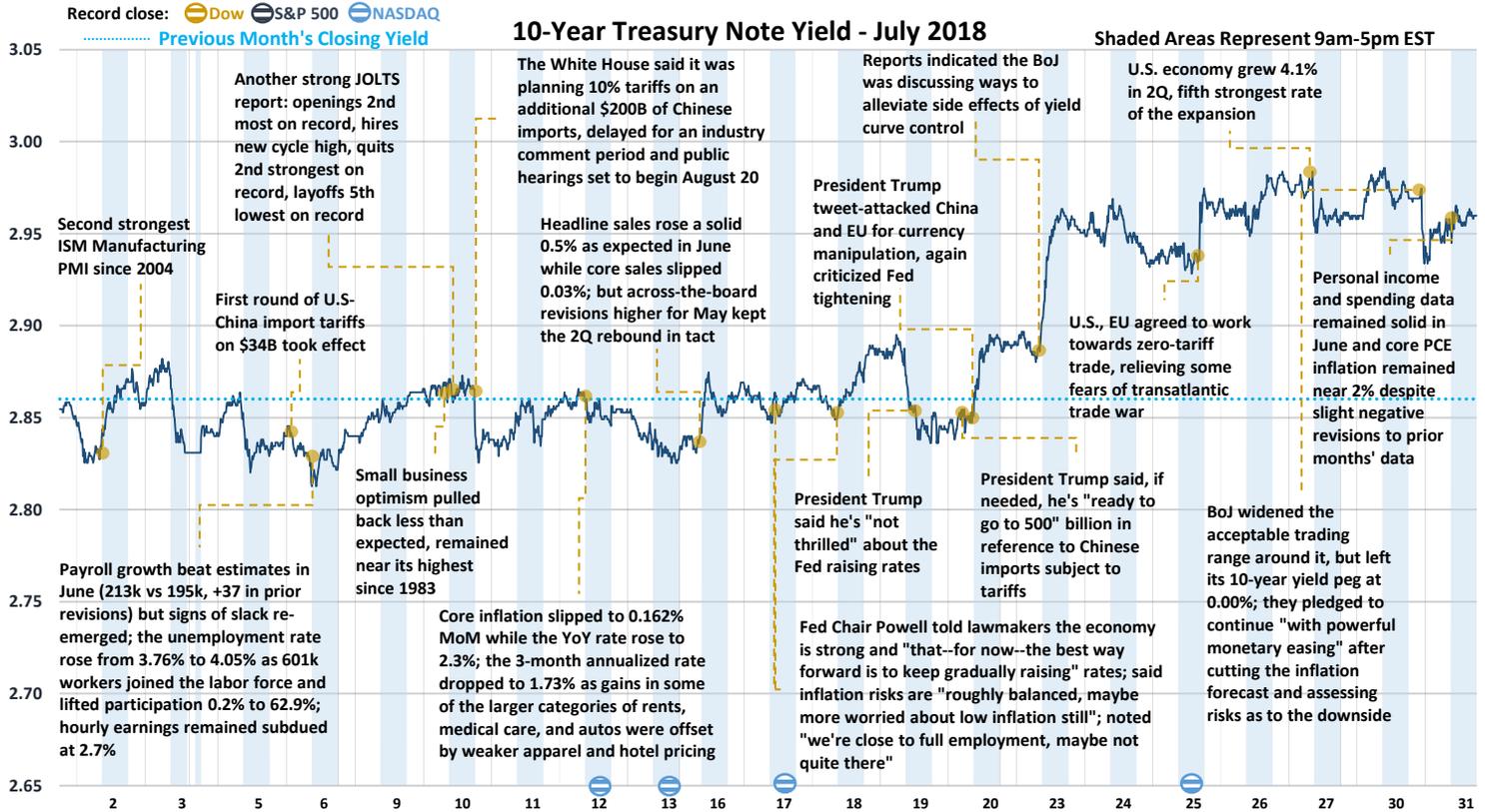


# Monthly Review

July 2018

Strong U.S. Outlook Kept Upward Pressure on Shorter Yields, Which Outpaced Late-Month Move in Longer Maturities



## Shorter Yields Marched Higher in Response to a Strong U.S. Outlook, Outpacing Smaller Gains for Longer Yields on Positive Trade Developments and a BoJ Change

**Markets:** Longer yields flat-lined for the first three weeks of July before a couple of late-month events pushed the 10-year yield through the topside of a 9-basis point, month-long range. The biggest move (up) came on reports that Japan's central bank was discussing modifying its yield curve control policy which has kept downward pressure on U.S. yields. The second sharpest move (up) came a day earlier after President Trump criticized the Fed for raising rates. Conceptually, a lack of central bank independence is a curve-steepening dynamic, with less aggressive policy allowing inflation pressures to build. Trade remained a focus, as tariffs on \$34B of U.S.-China trade took effect and the U.S. threatened an additional \$200B. However, transatlantic tensions eased as the U.S. and EU agreed to seek out a zero-tariffs trade relationship. Markets were also faced with an influx of second quarter corporate earnings releases. FactSet showed that 80% of the 53% of S&P 500 companies that had reported beat estimates, on pace for the best quarter of the cycle. However, some concerning reports out of several major tech names weighed late and pared the monthly advance.

**Consumer:** The consumer rebounded strongly in 2Q with personal consumption growth of 4.0% a major reason for the broader economy expanding 4.1%, both the best rates since 2014. The benefits of a strong labor market and the positive effects of tax reform on disposable income remain supportive of the consumer heading into the second half of 2018. Hiring continued to outpace what is sustainable longer term and an uptick in the unemployment rate occurred for all the right reasons. More than 600k people entered the labor force looking for work but, even with that increase, there was still less than one unemployed person available to fill each open position. Average hourly earnings continued to grow only modestly but the employee cost index, despite falling short of estimates, rose 2.8% YoY marking a new high for the cycle.

**Private Investment:** Businesses continued to spend in the second quarter as nonresidential fixed investment rose 7.3% from 1Q. The developments surrounding U.S.-involved global trade have become a topic of conversation among corporate executives but have yet to have a notable effect on the data. According to FactSet, 41% of S&P 500 companies that reported earnings through July 25 mentioned the word "tariff" during their conference call with 61% of those saying there hadn't been a measurable impact on results. That is consistent with the stronger-than-expected ISM reports and small business confidence holding at its fifth strongest level since 1983. Housing was one of only two categories to drag on 2Q growth and the most recent sector reports continued to show the negative impact higher mortgage rates and asking prices are having on activity. Inventories were the other negative contributor, but the larger-than-expected decline clears the way for a restocking boost in the months ahead.

**External Trade:** Trade boosted 2Q growth but front running the tariffs likely caused an outsized swing in exports of soybeans and other goods. The trade deficit shrank 22% between February and May but continued narrowing appears unlikely. Already, an advance look at June's goods trade balance showed a larger-than-expected reversion.

**Inflation:** Core PCE inflation rounded to 1.9% for a third month after a slight negative revision to prior months' data while core CPI rose to 2.3%, further above the Fed's target. A lack of persistently stronger inflation pressures could become a key factor in future monetary policy decisions.

**Monetary Policy:** The Fed's June Minutes sounded upbeat on the economy and more confident about inflation. Powell echoed that to Congress but seemed to open the door to pausing if the situation warranted. The markets ended July expecting the Fed to hike again in September. The ECB still expects to end QE after December and keep rates unchanged through next summer. The BoJ, despite market speculation for hawkish policy changes, cut its inflation forecasts and pledged to keep rates low "for an extended period of time" in newly adopted forward guidance. They did, however, widen the acceptable trading range around the 0.00% 10-year yield peg.

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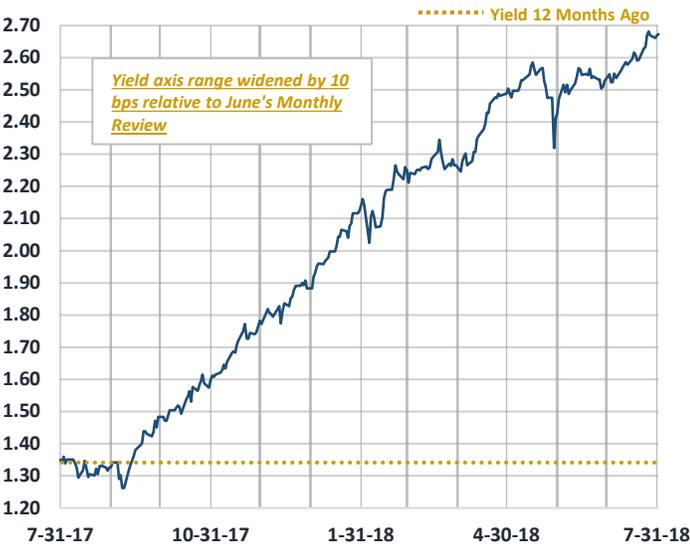
2-Year Treasury Note Yield - July 2018



5-Year Treasury Note Yield - July 2018



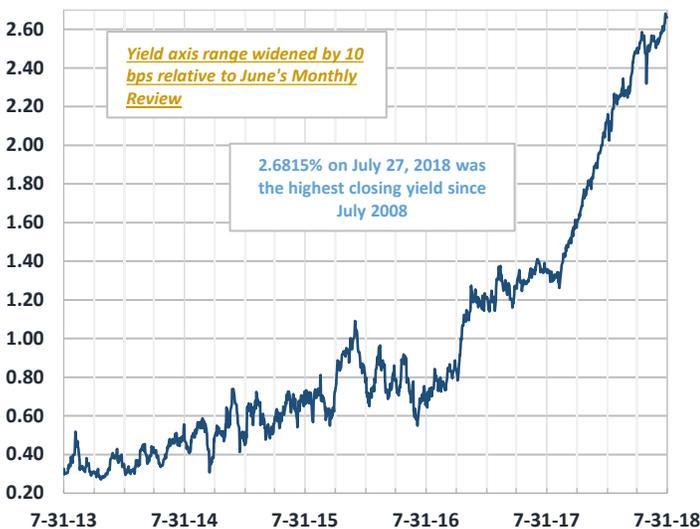
2-Year Treasury Note Yield - Last 12 Months



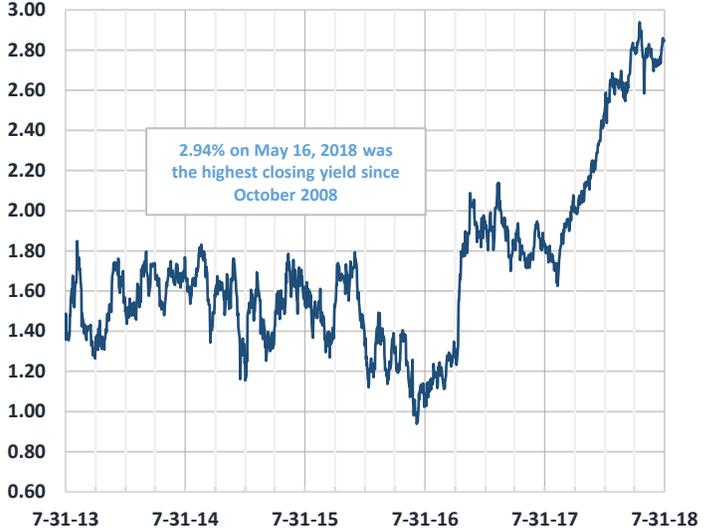
5-Year Treasury Note Yield - Last 12 Months



2-Year Treasury Note Yield - Last 5 Years



5-Year Treasury Note Yield - Last 5 Years

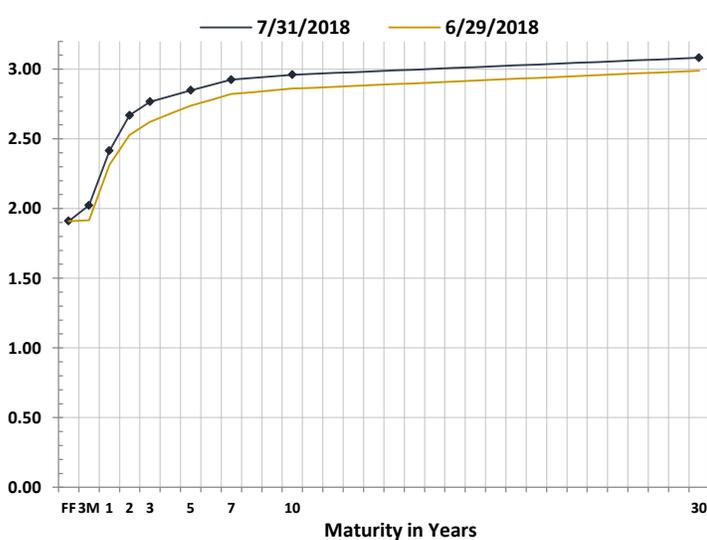


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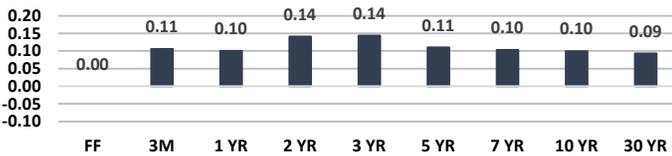
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Treasury Month-Over-Month



Month-Over-Month Change in Treasury Yields



Global Stock Performance

	Value	MTD Change	QTD Change	YTD Change
Dow Jones	25,415	4.71% ↑	4.71% ↑	2.82% ↑
S&P 500	2,816	3.60% ↑	3.60% ↑	5.34% ↑
Nasdaq	7,672	2.15% ↑	2.15% ↑	11.13% ↑
Stoxx Europe 600	392	3.07% ↑	3.07% ↑	0.62% ↑
China CSI 300	3,518	0.19% ↑	0.19% ↑	-12.73% ↓
Nikkei 225	22,554	1.12% ↑	1.12% ↑	-0.93% ↓

Global Sovereign Debt Performance

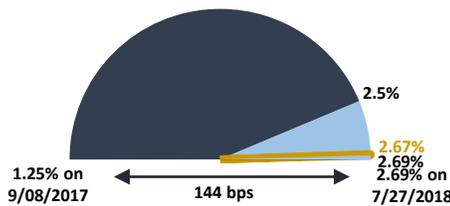
	Yield	MTD Change (in bps)	QTD Change (in bps)	YTD Change (in bps)
U.S. 2-year	2.67%	14.1 ↑	14.1 ↑	78.6 ↑
U.S. 5-year	2.85%	11.0 ↑	11.0 ↑	64.2 ↑
U.S. 10-year	2.96%	10.0 ↑	10.0 ↑	55.4 ↑
German 10-year	0.44%	14.1 ↑	14.1 ↑	1.6 ↑
U.K. 10-year	1.33%	5.2 ↑	5.2 ↑	14.0 ↑
French 10-year	0.73%	6.7 ↑	6.7 ↑	-5.3 ↓
Italian 10-year	2.72%	4.0 ↑	4.0 ↑	70.4 ↑
Japanese 10-year	0.06%	2.6 ↑	2.6 ↑	1.4 ↑

Commodity Performance

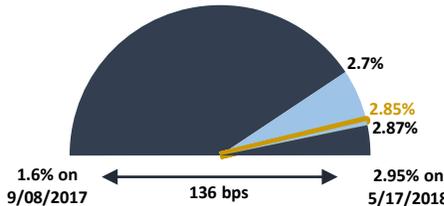
	Value	MTD Change	QTD Change	YTD Change
WTI Crude	\$ 68.76	-7.27% ↓	-7.27% ↓	13.80% ↑
U.S. Dollar	94.55	0.09% ↑	0.09% ↑	2.64% ↑
Gold Spot	1,224	-2.32% ↓	-2.32% ↓	-6.06% ↓
Commodity Index	85.39	-2.31% ↓	-2.31% ↓	-3.14% ↓

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

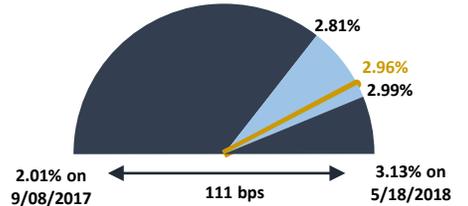
2-Year Treasury



5-Year Treasury



10-Year Treasury



Nonfarm Payrolls

June 213k

18k better than expected, +37k prior two-month revision

Unemployment Rate

June 4.0%

Up 0.2%  
+601k joined the labor force, 499k into unemployed

Existing Home Sales MoM

June -0.6%

Housing data continued to disappoint in June, increasing concerns of a slowdown for the sector

New Home Sales MoM

June -5.3%

Core Retail Sales

June 0.0%

Positive May revision absorbed a portion of the June miss

Consumer Confidence

July 127.4

Up 0.3 pts  
Remained near its best levels since 2000

ISM Non-Manufacturing

June 59.1  
+0.5 pts

Both ISM surveys rose unexpectedly; manufacturing was the second best since 2004

ISM Manufacturing

June 60.2  
+1.5 pts

Manufacturing Production

June 0.8%

Auto-related activity led the bounce back after a fire at major supplier suppressed prior month results

Core Capital Goods Orders

June 0.6%

Topped estimates, plus May revised stronger

Trade Balance

May -43.1B  
+3B

Lowest deficit since October 2016 on surge in soybean exports

Core PCE YoY

June 1.9%

Rounded to 1.9% for three months in a row

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