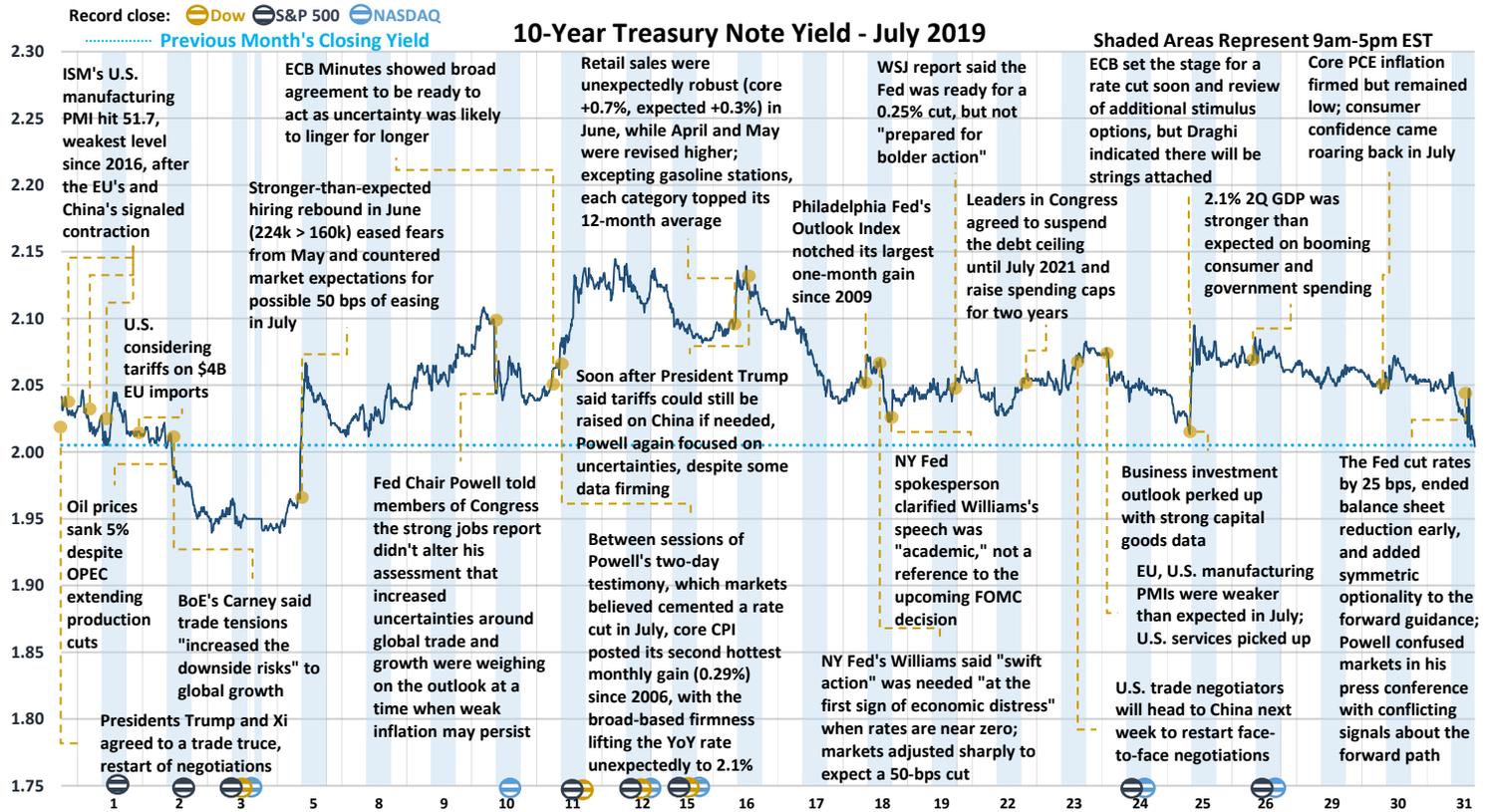


Monthly Review

July 2019

Stronger U.S. Data and the Fed's "Mid-Cycle" Adjustment Left Markets Expecting a More Shallow Path of Rate Cuts



Stronger U.S. Economic Data and the Fed's "Mid-Cycle Adjustment" Left Markets Expecting a More Shallow Path of Rate Cuts in the Months Ahead

Markets: The Treasury curve flattened on a rise in shorter yields as stronger U.S. data weighed on investors' expectations for a larger adjustment, but didn't keep the Fed from cutting rates in response to global uncertainties. June's payroll report was much stronger than expected, but days later Chair Powell told members of Congress it hadn't changed his assessment that uncertainties were weighing on the outlook. Despite the biggest monthly gain for core CPI since 2006 and a robust retail sales report, Powell again elected to focus on the tenuous outlook. The Philadelphia Fed's business index notched its strongest monthly gain of the cycle, but hours later New York Fed President Williams said "swift action" was needed "at the first sign of economic stress." While that remark was quickly clarified to be "academic," the WSJ said the Fed was readying a quarter-point rate cut. Despite strong domestic signals in the 2Q GDP report and firmness in their preferred PCE inflation metric, the Fed followed through with its first rate cut in more than a decade. While markets ended July expecting additional rate cuts, symmetric optionality added to the forward guidance and a clumsy press conference tempered those expectations. The year-ended Fed Funds futures contract implied a forward rate of 1.58%, up from 1.43% at the end of June. The 2-year yield rose 11.7 bps and the Dollar climbed to a twenty-six-month high. The 10-year yield was essentially unchanged while the S&P 500 managed a modest 1.3% gain.

Consumer: With some assistance from strong government spending, the consumer carried the economy in the 2Q GDP report. Preceded by unexpectedly strong June retail sales, data showed personal consumption contributed 2.9% to 2.1% headline GDP, a figure negatively impacted by large swings in inventories and trade. Adding to the optimism around the consumer, hiring recovered more strongly than expected and confidence posted its biggest surge since 2011 according to the Conference Board.

Private Investment: Fixed business investment fell in the 2Q GDP report on weaker spending on structures, while inventory growth slowed and dragged 0.9% from growth. Adding to concerns about the outlook for business spending, manufacturing PMIs weakened, one to its lowest level since 2009 (Markit) and another to its softest level since 2016 (ISM), and the ISM's non-manufacturing index slipped to its weakest reading since 2016. Encouragingly, however, capital goods orders were much stronger than expected and manufacturing output strengthened. Mortgage rates held at low levels, but the effect on housing activity remained uneven across the various sector reports.

External Trade: Trade dragged 0.7% from growth in the 2Q GDP report, and could remain a headwind with the Dollar stronger and signs of continued weakness abroad.

Inflation: Core inflation firmed in both consumer reports for June, with CPI reflecting its hottest month since 2006 while the PCE measure was the third strongest since 2009. Nonetheless, negative prior revisions kept the Fed's preferred PCE YoY measure at a below-target 1.6% and pressure from wages remained subdued. Average hourly earnings were a steady 3.1% YoY while the Employment Cost Index slowed to 2.7%.

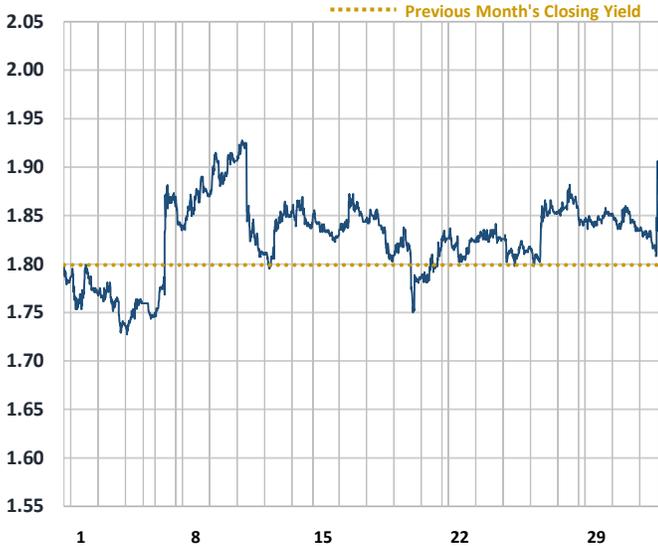
Monetary Policy: As telegraphed, the Fed cut rates by 0.25% in response to global concerns and muted inflation, while also announcing an early end to the balance sheet reduction. The Statement's forward guidance was altered to show they would "contemplate" the forward path, while keeping a promise to "act as appropriate to sustain the expansion." The new contemplation wording, a possible attempt at symmetric optionality, and two dissents were seen as less-than-dovish, but the real confusion came from Powell's press conference. He failed to clearly explain the Fed's reaction function to hard-to-quantify global worries, making it difficult to determine what might happen at future meetings. Markets recoiled when he characterized the cut as a "mid-cycle adjustment" and not the start of a "lengthy cutting cycle," but recovered when he clarified he didn't say "it's just one." Away from the Fed, the ECB set the stage for a rate cut in the near-term and a possible restart of quantitative easing.

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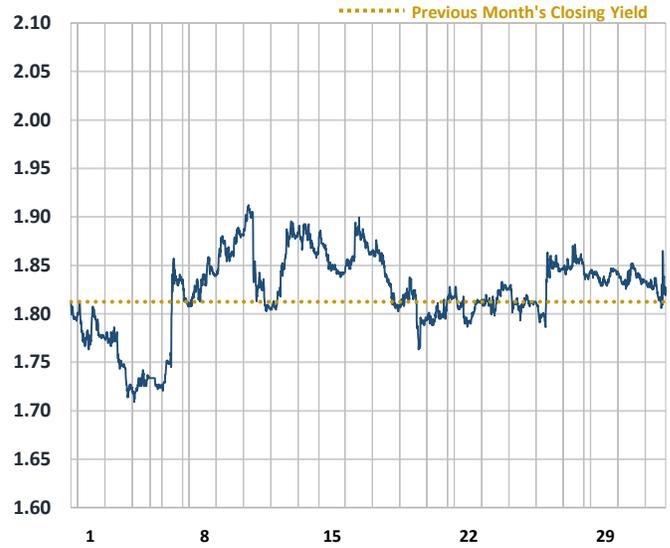
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2-Year Treasury Note Yield - July 2019



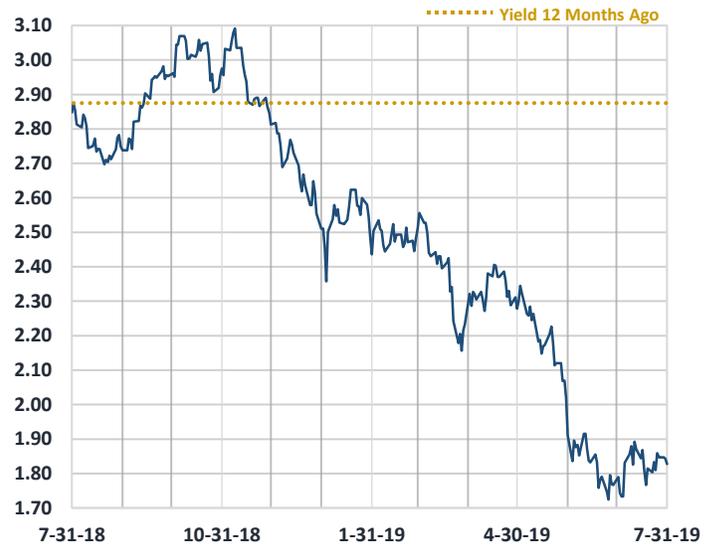
5-Year Treasury Note Yield - July 2019



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

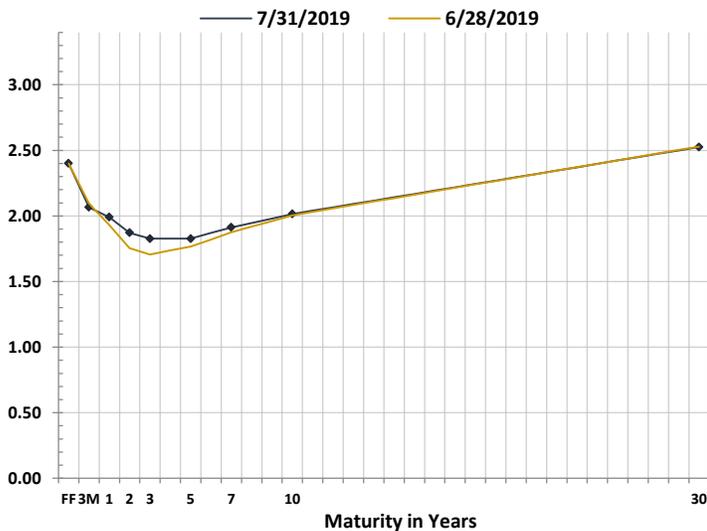


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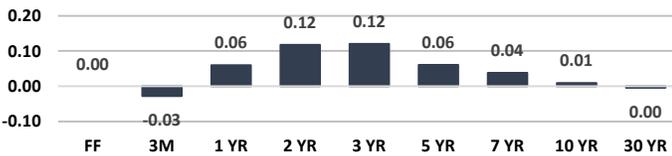
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Treasury Month-Over-Month



Month-Over-Month Change in Treasury Yields



Global Stock Performance

	Value	MTD Change	QTD Change	YTD Change
Dow Jones	26,864	0.99% ↑	0.99% ↑	15.16% ↑
S&P 500	2,980	1.31% ↑	1.31% ↑	18.89% ↑
Nasdaq	8,175	2.11% ↑	2.11% ↑	23.21% ↑
Stoxx Europe 600	386	0.23% ↑	0.23% ↑	14.25% ↑
China CSI 300	3,835	0.26% ↑	0.26% ↑	27.39% ↑
Nikkei 225	21,522	1.15% ↑	1.15% ↑	7.53% ↑

Global Sovereign Debt Performance

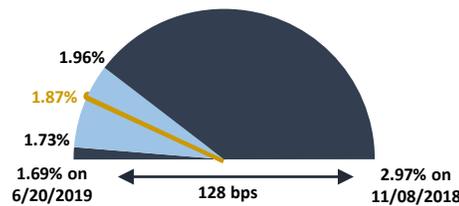
	Yield	MTD Change (in bps)	QTD Change (in bps)	YTD Change (in bps)
U.S. 2-year	1.87%	11.7 ↑	11.7 ↑	-61.6 ↓
U.S. 5-year	1.83%	6.1 ↑	6.1 ↑	-68.4 ↓
U.S. 10-year	2.01%	0.9 ↑	0.9 ↑	-67.0 ↓
German 10-year	-0.44%	-11.3 ↓	-11.3 ↓	-68.2 ↓
U.K. 10-year	0.61%	-22.2 ↓	-22.2 ↓	-66.6 ↓
French 10-year	-0.18%	-17.9 ↓	-17.9 ↓	-89.4 ↓
Italian 10-year	1.54%	-56.0 ↓	-56.0 ↓	-120.0 ↓
Japanese 10-year	-0.15%	0.5 ↑	0.5 ↑	-15.6 ↓

Commodity Performance

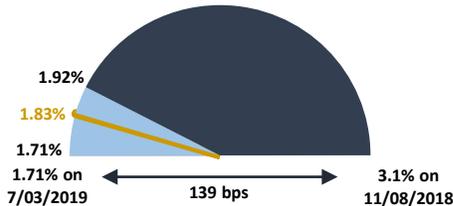
	Value	MTD Change	QTD Change	YTD Change
WTI Crude	\$ 58.58	0.19% ↑	0.19% ↑	29.00% ↑
U.S. Dollar	98.52	2.48% ↑	2.48% ↑	2.44% ↑
Gold Spot	1,414	0.32% ↑	0.32% ↑	10.25% ↑
Commodity Index	78.96	-0.87% ↓	-0.87% ↓	2.93% ↑

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

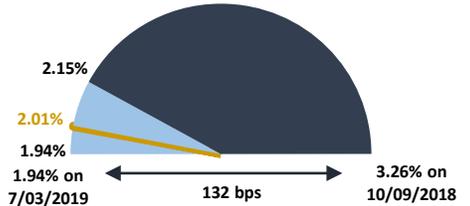
2-Year Treasury



5-Year Treasury



10-Year Treasury



Nonfarm Payrolls

June
224k



Hiring recovered more than expected, and stronger participation nudged unemployment higher

Unemployment Rate

June
3.7%



Up 0.1%

Existing Home Sales MoM

June
-1.7%



New Home Sales MoM

June
7.0%



Core Retail Sales

June
0.7%



Expected +0.3%

Consumer Confidence

July
135.7



Up 11.4 pts
Biggest gain since 2011, third strongest level since 2000

ISM Non-Manufacturing

June
55.1



Weakest non-manufacturing report since October 2016; weakest manufacturing since September 2016

ISM Manufacturing

June
51.7



-0.4 pts

Manufacturing Production

June
0.4%



Core Capital Goods Orders

June
1.9%



Expected +0.2%

Trade Balance

May
-55.5B



Up \$8.8 B

Core PCE YoY

June
1.6%



Up 0.12%
Third firmest MoM since 2009

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