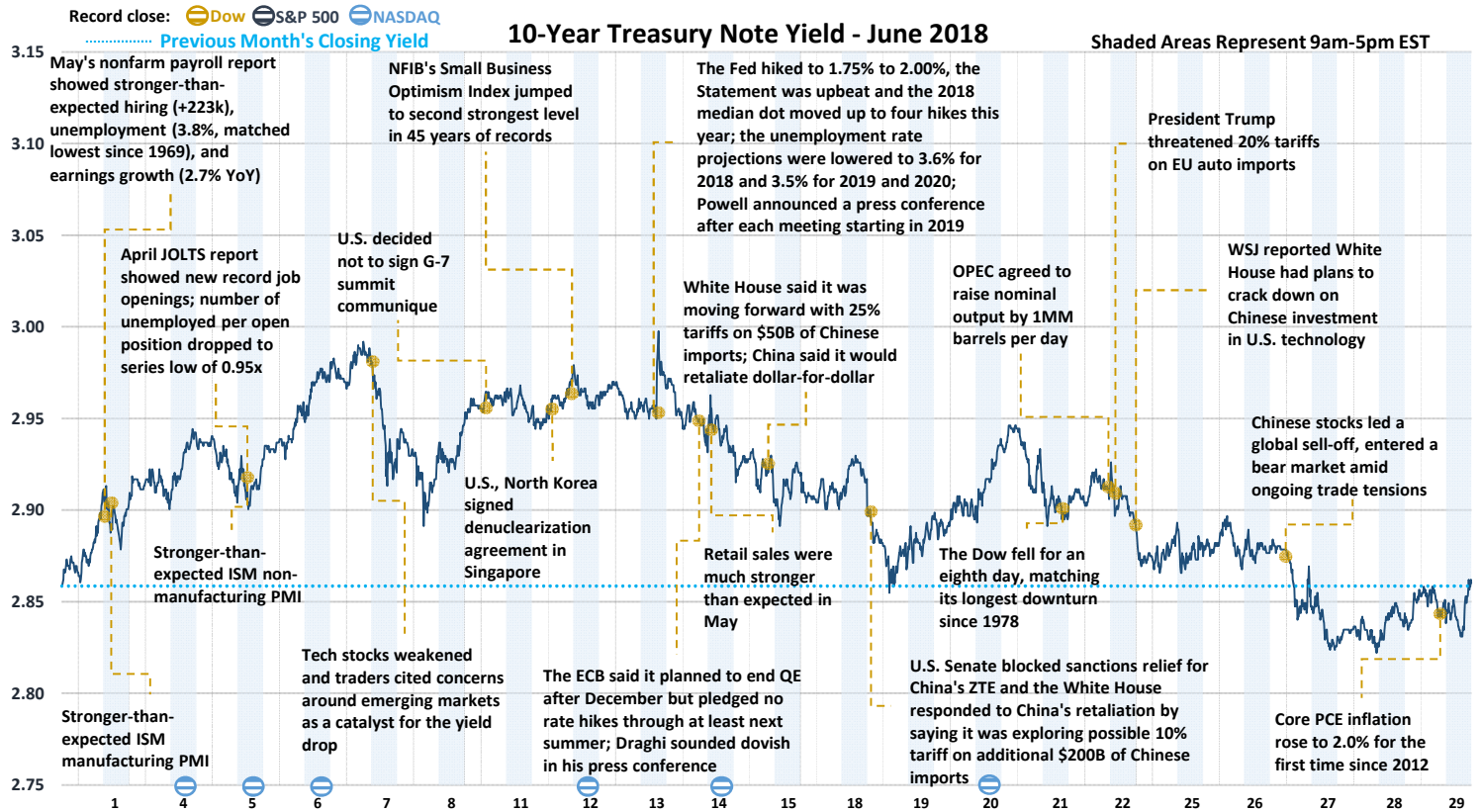


# Monthly Review

June 2018

Curve Flattened to New Cycle Low Amid Strong Data, a Quicker Projected Fed Path, and Renewed Trade Anxieties



## Treasury Curve Flattened to a New Cycle Low: Strong Data and Faster Fed Forecast Boosted Short Yields, Trade and Other Global Factors Weighed on Longer Yields

**Markets:** Strong data strengthened expectations that growth could top 4% in 2Q for the first time since 2014. Still, the Treasury curve continued its precipitous flattening. The strong data led the Fed to upgrade its assessment of growth to “solid”, raise rates for a seventh time this cycle (1.75% to 2.00%), and forecast a fourth hike in 2018 (median dot). The 2-year yield responded by adding 10 bps. Longer maturities, however, fared differently. Emerging market concerns, a dovish ECB decision, and renewed angst around trade weighed on global equities and kept longer yields in check; the 10-year yield finished essentially flat. The U.S. said it would move forward with tariffs on \$50 billion of Chinese imports and was exploring opportunities for more. Chinese equities fell into a bear market and the yuan closed at a more-than-six-month low against the Dollar. Against a broader basket, the Dollar touched its strongest level in a year. Oil was a major focus with OPEC announcing plans to increase production to alleviate upward pressure on prices. But prices actually rose as a hefty drawdown of U.S. inventories and supply disruptions in Canada, Libya, and Iran proved more impactful.

**Consumer:** The near-term consumer outlook strengthened in June on another strong month for retail sales and signs that the labor market is becoming increasingly tight. Core retail sales were up an annualized 6.6% in the three months through May, marking one of the best runs of the cycle. Consumer spending should continue to benefit from an increasingly better labor market. The 223k workers hired in May helped push the unemployment rate down to 3.8%, matching the lowest level since 1969. With the economy humming, businesses continued to seek out additional workers. The number of job openings (6.7MM) touched a new record in April, meaning there was 0.95 unemployed worker (6.3MM) for each position, a low for the metric. Encouragingly, hourly earnings also rose a faster-than-expected 2.7% YoY.

**Private Investment:** Business fixed investment in 1Q was revised up to its strongest level since 2014 and the recent capital goods data point to a continuation of the positive momentum into 2Q. Both ISM reports rebounded more than expected and small business confidence jumped to its second strongest level in 45 years of records. Within the confidence survey, the number who said sales were up was the highest since 1995 while those experiencing stronger earnings and planning to expand hit 45-year highs. Housing remained the soft spot for investment. New home sales were the second strongest of the cycle but gains were concentrated in the South. Existing home sales were the weakest since January and pending sales pointed to more softness ahead. Tight inventories remained a headwind and helped push the median price up to a new record. As to new homes, higher input costs and concerns about affordability drove home builder confidence to its lowest level since September.

**External Trade:** Trade was a neutral factor for growth in 1Q but the recent indicators point to a positive contribution in 2Q. The total trade deficit narrowed to a six-month low in April and a first look at goods flows in May showed the related deficit fell to a nine-month low.

**Inflation:** Core PCE inflation rose to 2.0% in May, matching the Fed's target for the first time since April 2012, as the base effects of some of the weakest readings from last year have moved out of the calculation. Core CPI was as expected at 2.2%. Non-consumer inflation indicators remained firm.

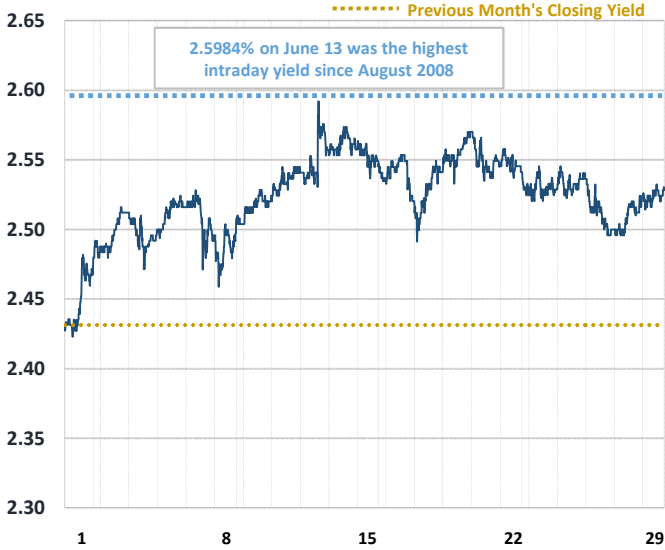
**Monetary Policy:** The Fed hiked in June, quickened the projected forward path (policy now becomes restrictive in 2019), and forecasted the labor market to move even further past full employment. They now expect unemployment to drop to 3.5% in 2019 and 2020, 1% below their estimate of full employment. The ECB announced an end to QE this year but simultaneously pledged no rate hikes through at least next summer. On net, the decision was less hawkish than expected. The BoE left rates unchanged but three dissenters included the chief economist and led to speculation for a rate hike later this year. The BoJ met and offered a more downbeat outlook for inflation.

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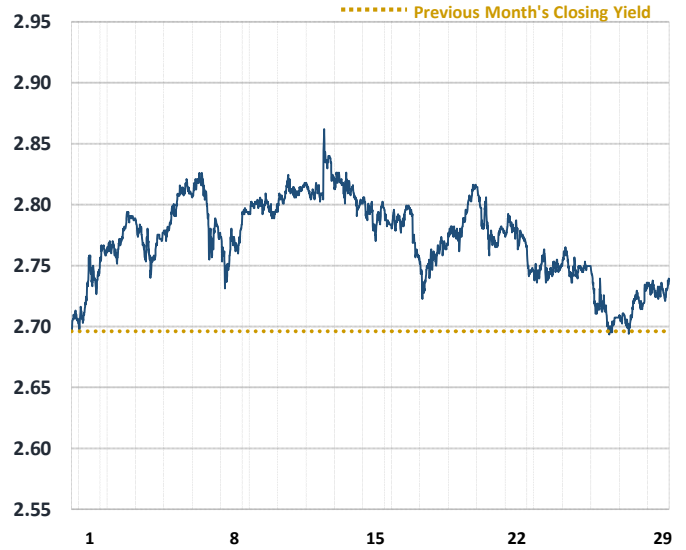
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2-Year Treasury Note Yield - June 2018



5-Year Treasury Note Yield - June 2018



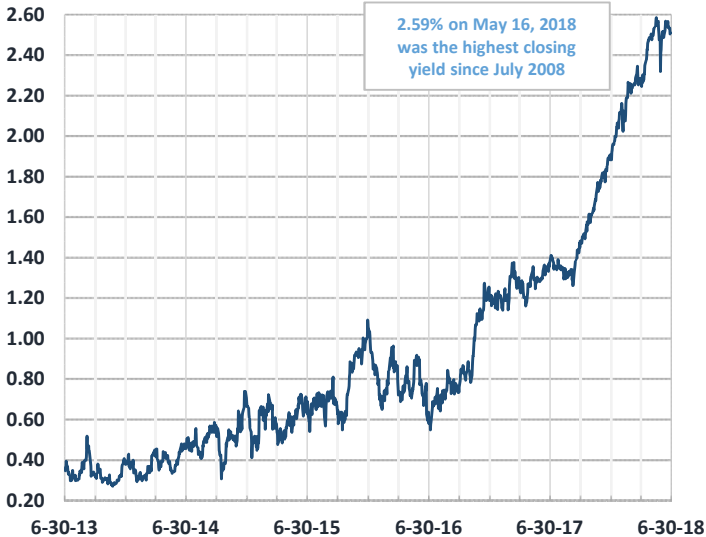
2-Year Treasury Note Yield - Last 12 Months



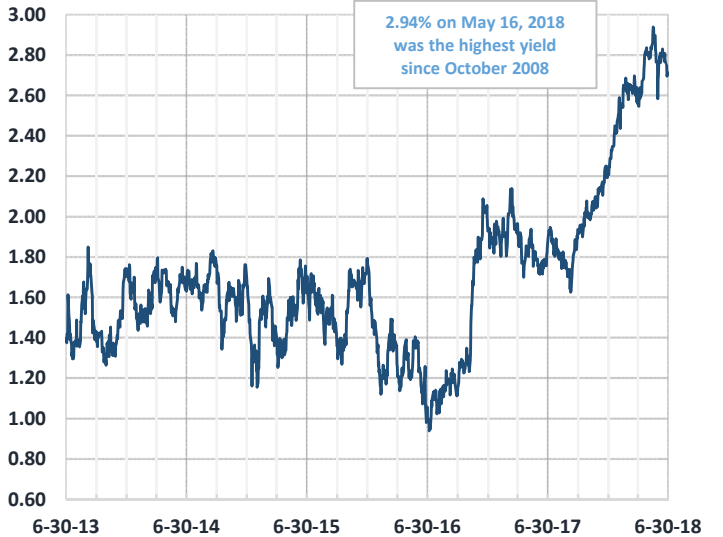
5-Year Treasury Note Yield - Last 12 Months



2-Year Treasury Note Yield - Last 5 Years



5-Year Treasury Note Yield - Last 5 Years

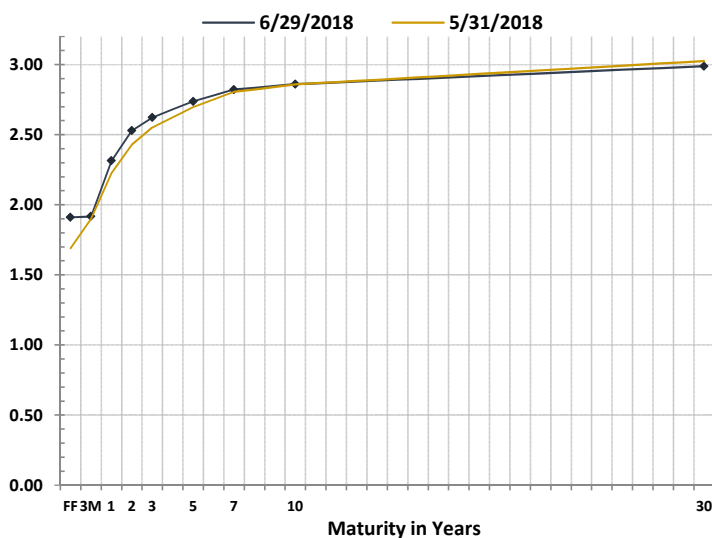


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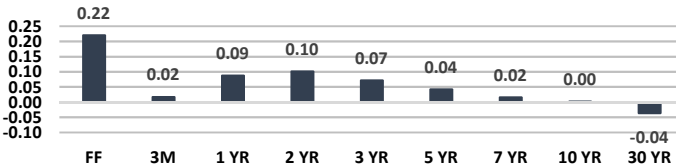
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Treasury Month-Over-Month



Month-Over-Month Change in Treasury Yields



Global Stock Performance

	Value	MTD Change	QTD Change	YTD Change
Dow Jones	24,271	-0.59% ↓	0.70% ↑	-1.81% ↓
S&P 500	2,718	0.48% ↑	2.93% ↑	1.67% ↑
Nasdaq	7,510	0.92% ↑	6.33% ↑	8.79% ↑
Stoxx Europe 600	380	-0.82% ↓	2.44% ↑	-2.38% ↓
China CSI 300	3,511	-7.66% ↓	-9.94% ↓	-12.90% ↓
Nikkei 225	22,305	0.46% ↑	3.96% ↑	-2.02% ↓

Global Sovereign Debt Performance

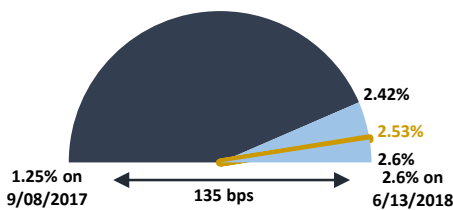
	Yield	MTD Change (in bps)	QTD Change (in bps)	YTD Change (in bps)
U.S. 2-year	2.53%	10.1 ↑	26.2 ↑	64.5 ↑
U.S. 5-year	2.74%	4.2 ↑	17.6 ↑	53.1 ↑
U.S. 10-year	2.86%	0.2 ↑	12.1 ↑	45.5 ↑
German 10-year	0.30%	-3.9 ↓	-19.5 ↓	-12.5 ↓
U.K. 10-year	1.28%	4.8 ↑	-7.2 ↓	8.8 ↑
French 10-year	0.67%	-0.3 ↓	-5.6 ↓	-12.0 ↓
Italian 10-year	2.68%	-11.4 ↓	89.4 ↑	66.4 ↑
Japanese 10-year	0.04%	-0.4 ↓	-1.3 ↓	-1.2 ↓

Commodity Performance

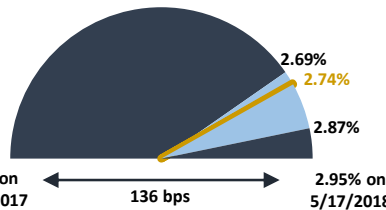
	Value	MTD Change	QTD Change	YTD Change
WTI Crude	\$ 74.15	10.61% ↑	14.18% ↑	22.72% ↑
U.S. Dollar	94.47	0.52% ↑	5.00% ↑	2.55% ↑
Gold Spot	1,253	-3.49% ↓	-5.42% ↓	-3.83% ↓
Commodity Index	87.41	-3.64% ↓	-0.07% ↓	-0.86% ↓

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

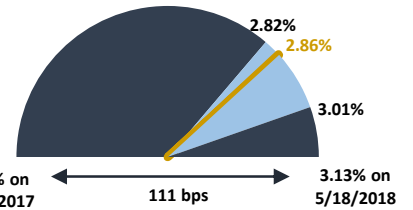
2-Year Treasury



5-Year Treasury



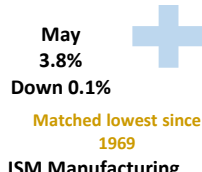
10-Year Treasury



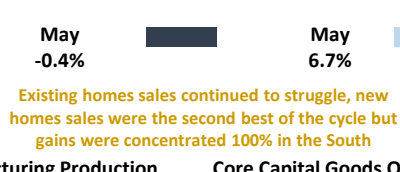
Nonfarm Payrolls



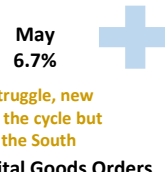
Unemployment Rate



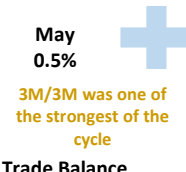
Existing Home Sales MoM



New Home Sales MoM



Core Retail Sales



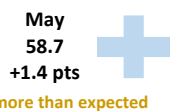
Consumer Confidence



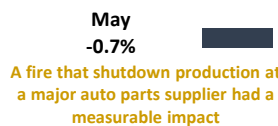
ISM Non-Manufacturing



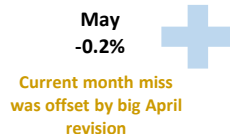
ISM Manufacturing



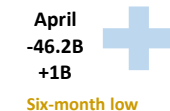
Manufacturing Production



Core Capital Goods Orders



Trade Balance



Core PCE YoY



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