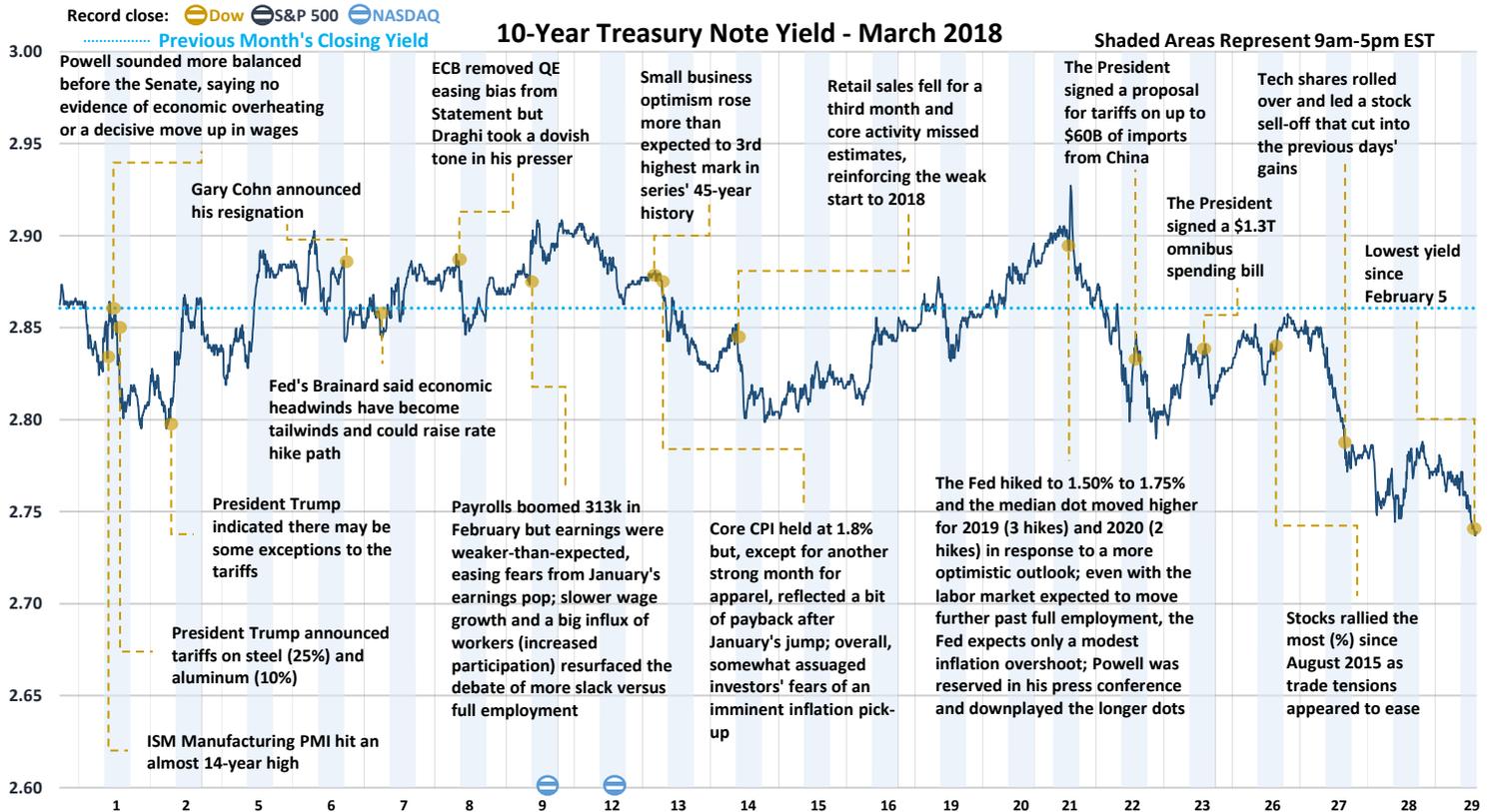


Monthly Review

March 2018

Market Volatility Continued Amid Trade War Fears, Tech Weakness, and Steeper Projected Path from the Fed



Equity Volatility Continued Amid Trade War Fears, Tech Sector Weakness, and a Steeper Projected Fed Path and the Yield Curve Flattened to New Cycle Lows

Markets: Market volatility remained a major story in March as fears of a possible trade war and issues affecting the tech sector added fuel to February's fire initially sparked by a hot hourly earnings report. The President announced tariffs on imported steel and aluminum, leading to the resignation of his top economic advisor, Gary Cohn, before signing a more specific proposal targeting up to \$60B of Chinese goods. China responded with retaliatory tariffs on U.S. goods, leading markets to worry about a possible tit-for-tat trade war that could disrupt the global flow of goods. The S&P 500 tacked a 2.7% loss onto February's 3.9% pullback, the first back-to-back decline since October 2016, and registered its first negative quarter since 3Q 2015. As equities weakened, longer yields moved lower. The 10-year yield fell 12 bps and ended at its lowest level since February 5. The 2-year yield, however, rose 1.6 bps after the Fed hiked to 1.50% to 1.75% and steepened their forward guidance. As a result, the changing shape dynamics knocked steepness levels between the 2-year Treasury and most other longer maturities to their lowest levels of the cycle.

Consumer: Retail sales and personal spending reinforced a slow start to the year for the consumer. When paired with an even stronger 4Q (personal consumption was revised up to 4.0%), that softer start portends moderation for 1Q growth. However, consumer fundamentals remained solid. A boomy payroll report (313k), record high openings, and a 45-year low for initial jobless claims reflect a strong labor market that continues to tighten. Average hourly earnings were a miss but personal incomes showed back-to-back months of solid growth. As a result of stronger incomes, lower tax payments (because of the tax law changes), and slower spending, the savings rate rebounded from cycle lows. With more dry powder in their pockets and consumer confidence still elevated, expectations are for a bounce back in the months ahead.

Private Investment: Private investment was revised up for 4Q, primarily because of stronger inventories. As to the current quarter, February's durable goods data reported a stronger-than-expected indication for business spending to start 2018. The ISM reports were mixed but both signaled continued steady expansion and small business confidence surprised to the high side of estimates. The NFIB's index rose to its third strongest level in the index's 45-year history. Home sales were more stable (existing and pending sales were up, starts and permits and new sales were down) but the broader headwinds from rising prices (S&P Case-Shiller 20-City index rose at its fastest pace since 2014) and tight inventories (existing homes months' supply held at 3.4 months – 6 is considered balanced) remained well entrenched.

External Trade: Trade, a larger-than-estimated drag on 4Q growth after revisions, continued to reflect growing monthly deficits despite an improved global economic backdrop. U.S. import activity continued to outpace the pick-up in exports, weighing on near-term estimates of economic growth.

Inflation: Inflation measures induced less anxiety as average hourly earnings missed expectations, January's initial 2.9% was revised lower by 0.1%, CPI showed a bit of payback from a strong January, and PCE matched estimates. Still, the underlying YoY trend has firmed slightly and should get a further base-effect boost in the March data.

Monetary Policy: The Fed hiked, projected an additional increase for 2019 (3 total), and now fully expects two total in 2020. Largely because of expected fiscal stimulus from the Bipartisan Budget Act of 2018, the Fed forecasted better near-term growth, even-lower unemployment, but only a modest inflation overshoot. Powell sounded optimistic in his press conference but downplayed upside inflation risks and higher longer dots. The ECB removed a QE easing bias from its statement but Draghi continued to stress the need for ample stimulus amid subdued inflation. Similarly, the BoJ noted stronger global growth but sees inflation returning towards target no sooner than fiscal 2019 (begins April 2019). The Bank of England left its target rate unchanged but continued to expect "gradual" and "limited" rate increases over the coming years.

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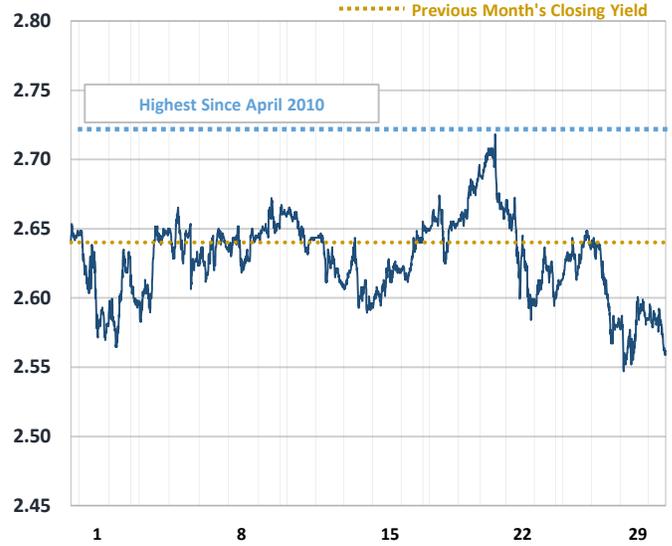
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2-Year Treasury Note Yield - March 2018



5-Year Treasury Note Yield - March 2018



2-Year Treasury Note Yield - Last 12 Months



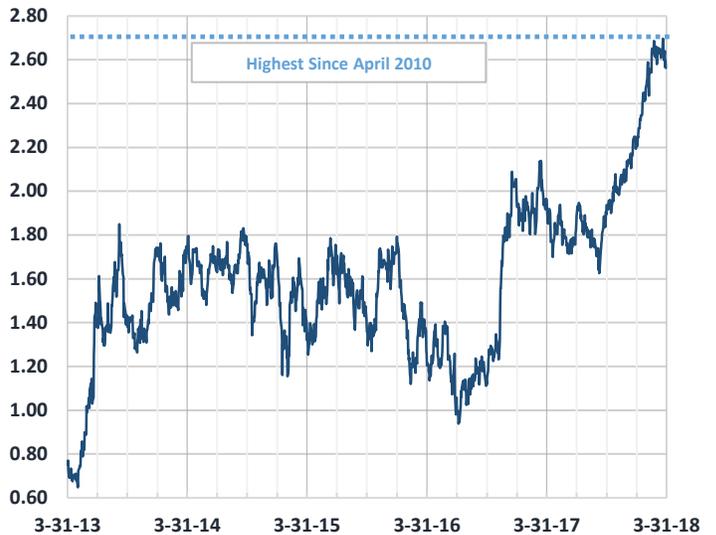
5-Year Treasury Note Yield - Last 12 Months



2-Year Treasury Note Yield - Last 5 Years



5-Year Treasury Note Yield - Last 5 Years

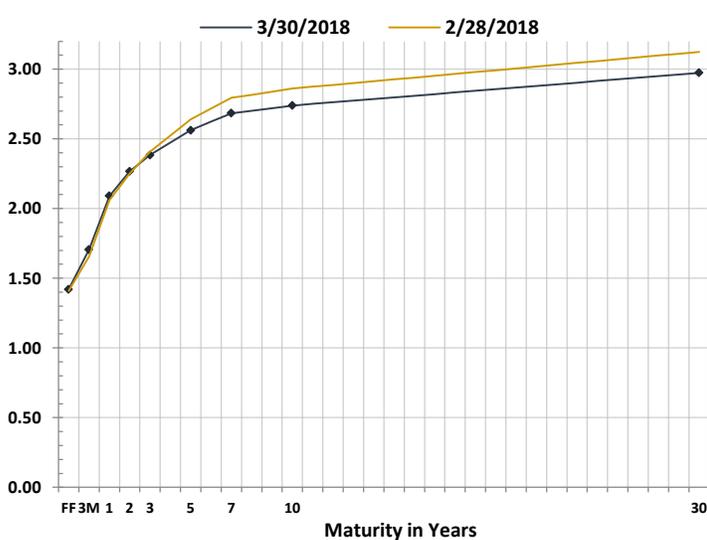


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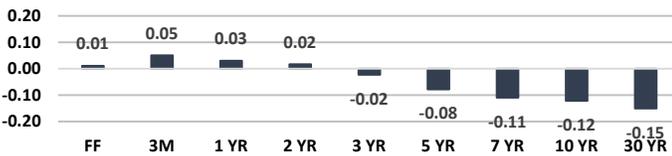
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Treasury Month-Over-Month



Month-Over-Month Change in Treasury Yields



Global Stock Performance

	Value	MTD Change	QTD Change	YTD Change
Dow Jones	24,103	-3.70% ↓	-2.49% ↓	-2.49% ↓
S&P 500	2,641	-2.69% ↓	-1.22% ↓	-1.22% ↓
Nasdaq	7,063	-2.88% ↓	2.32% ↑	2.32% ↑
Stoxx Europe 600	371	-2.31% ↓	-4.70% ↓	-4.70% ↓
China CSI 300	3,899	-3.11% ↓	-3.28% ↓	-3.28% ↓
Nikkei 225	21,454	-2.78% ↓	-5.76% ↓	-5.76% ↓

Global Sovereign Debt Performance

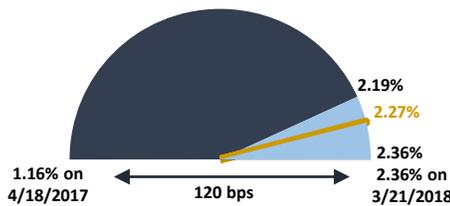
	Yield	MTD Change (in bps)	QTD Change (in bps)	YTD Change (in bps)
U.S. 2-year	2.27%	1.6 ↑	38.3 ↑	38.3 ↑
U.S. 5-year	2.56%	-7.8 ↓	35.6 ↑	35.6 ↑
U.S. 10-year	2.74%	-12.2 ↓	33.4 ↑	33.4 ↑
German 10-year	0.50%	-15.9 ↓	7.0 ↑	7.0 ↑
U.K. 10-year	1.35%	-15.1 ↓	16.0 ↑	16.0 ↑
French 10-year	0.72%	-19.7 ↓	-6.4 ↓	-6.4 ↓
Italian 10-year	1.79%	-18.8 ↓	-23.0 ↓	-23.0 ↓
Japanese 10-year	0.05%	-0.4 ↓	0.1 ↑	0.1 ↑

Commodity Performance

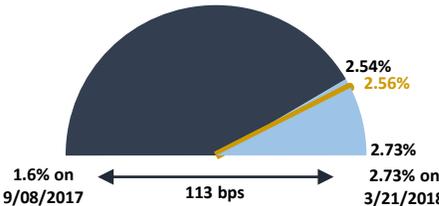
	Value	MTD Change	QTD Change	YTD Change
WTI Crude	\$ 64.94	5.35% ↑	7.48% ↑	7.48% ↑
U.S. Dollar	89.97	-0.71% ↓	-2.33% ↓	-2.33% ↓
Gold Spot	1,325	0.50% ↑	1.68% ↑	1.68% ↑
Commodity Index	87.47	-0.76% ↓	-0.79% ↓	-0.79% ↓

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

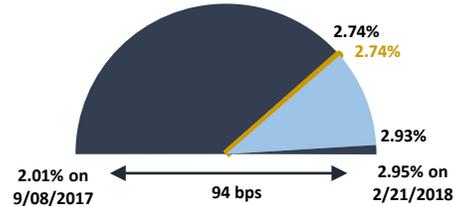
2-Year Treasury



5-Year Treasury



10-Year Treasury



Nonfarm Payrolls

February 313k
+100k more than expected

Unemployment Rate

February 4.1%
Unchanged

Existing Home Sales MoM

February 3.0%
More mixed housing data as rapid price increases continued amid tight supply

New Home Sales MoM

February -0.6%
More evidence of slower consumer to start 2018

Core Retail Sales

February 0.1%
More evidence of slower consumer to start 2018

Consumer Confidence

March 127.7
Down 2.3 pts
Softer, but third strongest since 2000

ISM Non-Manufacturing

February 59.5
-0.4 pts
Slower but strong

ISM Manufacturing

February 60.8
+1.7 pts
An almost 14-year high

Manufacturing Production

February 1.3%

Core Capital Goods Orders

February 1.8%

Trade Balance

January -56.6B
-2.7B
Trade continued to look weak

Core PCE YoY

February 1.6%
Up 0.07%
As expected

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