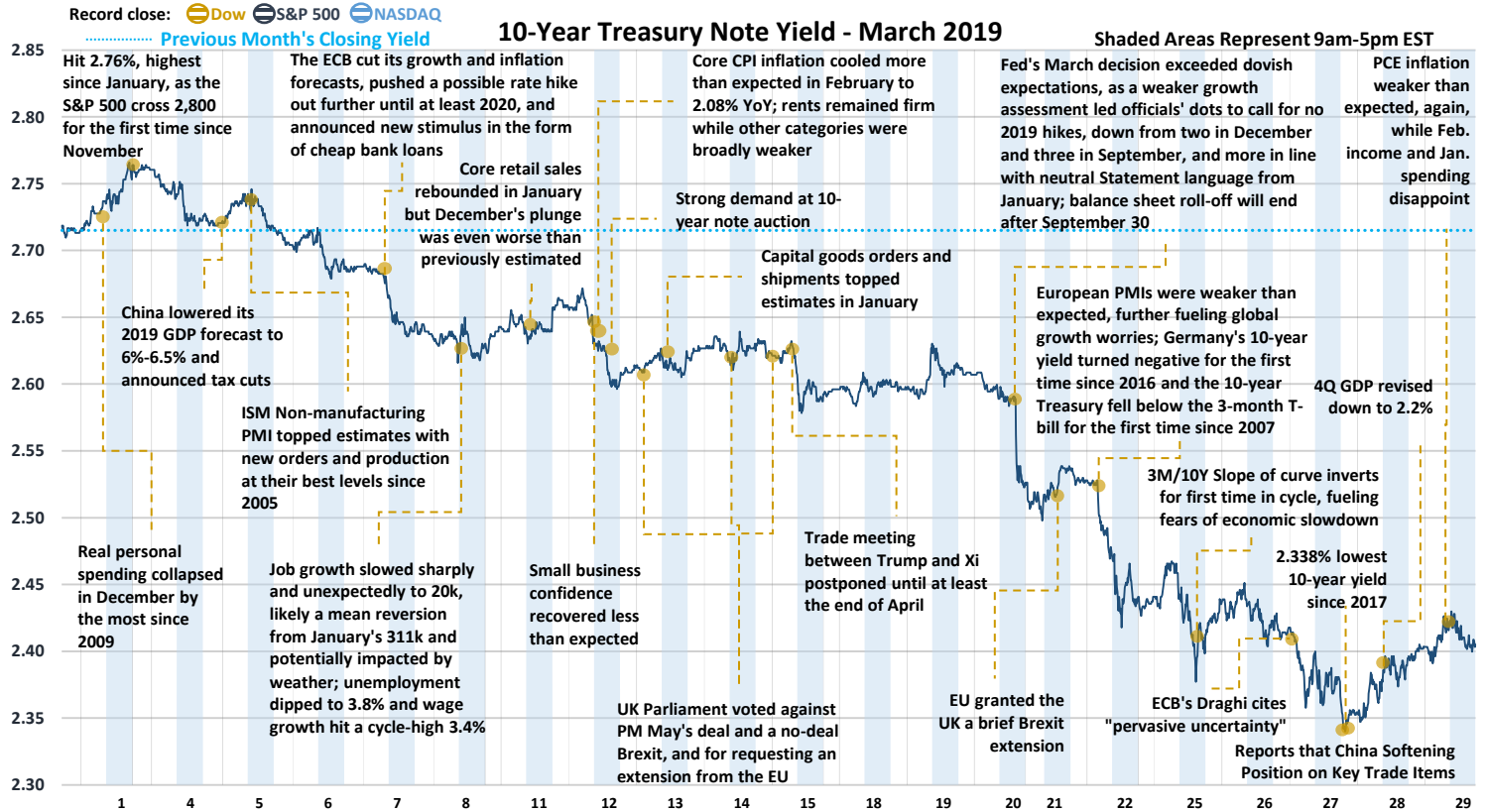


Monthly Review

March 2019

Yields Drop as Economic Data Highlight Depths of Uncertainty; Fed Pivots to a Complete Pause in Tightening



Deluge of Delayed Data Highlights Depth of Uncertainty about U.S. and Global Growth; Fed Completes Pivot from Tightening to Pause

Markets: Treasury yields fell throughout the month as the economic data showed the extent of uncertainty surrounding U.S. economic growth, global growth concerns increased, and the Fed finalized its shift from policy tightening to a complete pause. The monthly peak for rates came on the first day of the month with the 10-year yield reaching 2.76% and the 2-year as high as 2.57%. By the final trading days of March, the 10-year yield had dropped as low as 2.34% and the 2-year as low as 2.16%, 90 basis points and 82 basis points, respectively, below their cycle-highs less than five months ago. Exacerbating growth concerns, the yield spread between the 3-month T-bill and the 10-year note inverted on March 26 but turned back positive by the end of the month. The S&P 500 managed a 1.79% gain, bringing the index to within 3.3% of its all-time high. Oil prices continued higher, ending the month up 5.1% and 32.4% for the first three months of the year.

Consumer: The consumer data were mixed in March with continued weakness in spending data, a partial rebound in the confidence measures, and a murky report on the labor market. The January retail sales figures rebounded, up 1.1% for the month, but also showed an even larger drop in December than initially reported. January's personal spending data showed a meager 0.1% rebound from December's 0.6% decline. Despite the weak spending reports, the University of Michigan's consumer confidence report beat expectations, showing that confidence had almost completely rebounded from the 4Q drop. However, the Conference Board's report showed less optimism. Further distorting the picture, the February labor data showed only 20k new nonfarm payrolls added. However, the unemployment rate fell 0.2% to 3.8% and average hourly earnings rose to their highest level of the cycle at 3.4% YoY. The weak payroll figures appeared to be temporary.

Private Investment: Indicators for business spending were generally weaker again in March. The ISM manufacturing index for February fell 2.4 points after a brief rebound in January. Likewise, core capital goods orders disappointed expectations by dropping 0.1% in February following a decent January. Manufacturing output dropped 0.4% in February capping off the largest two-month decline since 2015. The one positive indicator was a 3-point jump in the ISM's service sector index, matching its fourth-best reading since 2005 and providing a basis for optimism going forward.

External Trade: The December trade balance showed an even larger-than-expected deficit, the largest monthly deficit since 2008. However, the January trade balance report was also released in March, showing an almost equally large \$8.8 decrease in the deficit. As such, external trade is likely to boost 1Q GDP.

Inflation: The inflation data released in March were generally soft. February's CPI report showed core consumer inflation unexpectedly falling from 2.2% to 2.1%. February's producer prices were also weaker than expected. January's PCE inflation report, delayed by the government shutdown, showed core consumer prices falling from 1.95% YoY to 1.79%, yet another reason for Fed officials to pause policy tightening.

Monetary Policy: The biggest news of March was the finalization of a complete shift in monetary policy posture from the Fed. As recently as September, the Fed was projecting three additional rate hikes in 2019 and balance sheet run-off to continue in the background. By the end of the March FOMC meeting, officials were projecting no additional rate hikes in 2019 and an end to its balance sheet run-off sometime after September 30, 2019. Market expectations for Fed Funds futures shifted to projecting almost a 100% likelihood of a rate cut by the end of 2019. Not to be outdone, the ECB also lowered their growth forecasts, announced a delay in future rate hikes, and added a new round of stimulus in the form of cheap bank loans.

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2-Year Treasury Note Yield - March 2019



5-Year Treasury Note Yield - March 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

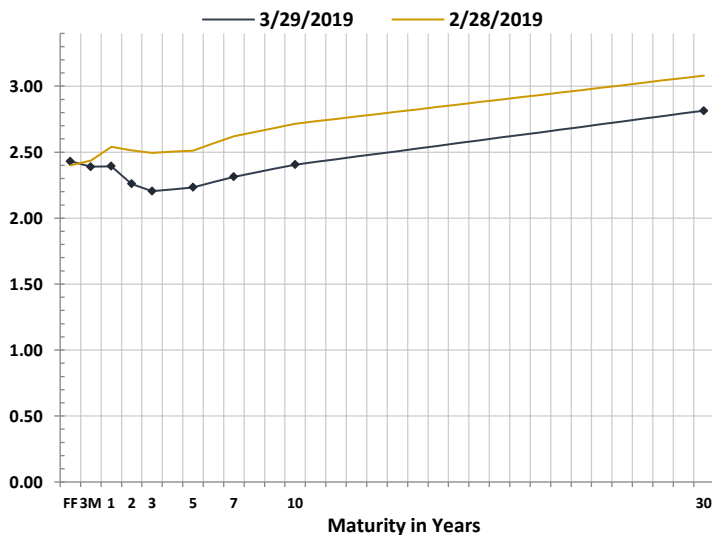


Monthly Review

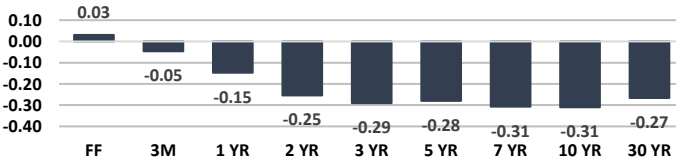
March 2019

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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	25,929	0.05% ↑	11.15% ↑	11.15% ↑
S&P 500	2,834	1.79% ↑	13.07% ↑	13.07% ↑
Nasdaq	7,729	2.61% ↑	16.49% ↑	16.49% ↑
Stoxx Europe 600	379	1.69% ↑	12.27% ↑	12.27% ↑
China CSI 300	3,872	5.53% ↑	28.62% ↑	28.62% ↑
Nikkei 225	21,206	-0.84% ↓	5.95% ↑	5.95% ↑

Global Sovereign Debt Performance

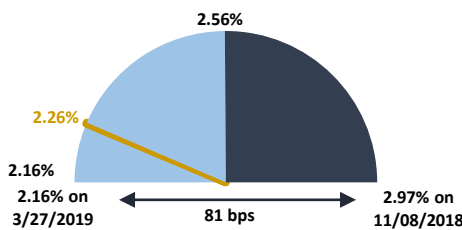
	Yield	MTD Change (in bps)	QTD Change (in bps)	YTD Change (in bps)
U.S. 2-year	2.26%	-25.4 ↓	-22.8 ↓	-22.8 ↓
U.S. 5-year	2.23%	-27.9 ↓	-27.8 ↓	-27.8 ↓
U.S. 10-year	2.41%	-31.0 ↓	-27.9 ↓	-27.9 ↓
German 10-year	-0.07%	-25.3 ↓	-31.2 ↓	-31.2 ↓
U.K. 10-year	1.00%	-30.2 ↓	-27.7 ↓	-27.7 ↓
French 10-year	0.32%	-25.1 ↓	-39.2 ↓	-39.2 ↓
Italian 10-year	2.49%	-26.4 ↓	-25.4 ↓	-25.4 ↓
Japanese 10-year	-0.08%	-5.9 ↓	-8.4 ↓	-8.4 ↓

Commodity Performance

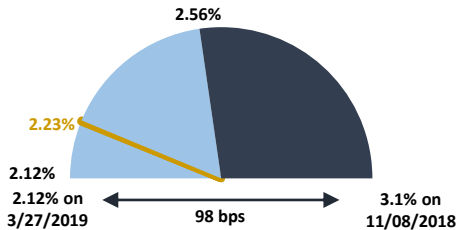
	Value	MTD Change	QTD Change	YTD Change
WTI Crude	\$ 60.14	5.10% ↑	32.44% ↑	32.44% ↑
U.S. Dollar	97.28	1.17% ↑	1.16% ↑	1.16% ↑
Gold Spot	1,292	-1.60% ↓	0.77% ↑	0.77% ↑
Commodity Index	81.09	-0.37% ↓	5.70% ↑	5.70% ↑

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

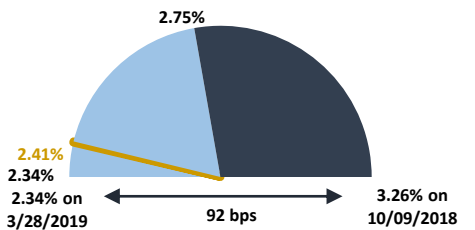
2-Year Treasury



5-Year Treasury



10-Year Treasury



Nonfarm Payrolls



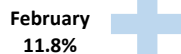
Disappointing payroll growth likely temporary, offset by stronger household report

Unemployment Rate



Down 0.2%

Existing Home Sales MoM



New and existing home sales jump in February as lower rates appear to be stimulating better activity

New Home Sales MoM



Weak February follows stronger January

Core Retail Sales



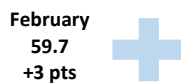
Weak February follows stronger January

Consumer Confidence



Down 7.3 pts

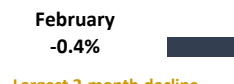
ISM Non-Manufacturing



ISM Manufacturing

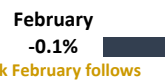


Manufacturing Production



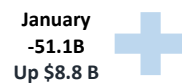
Largest 2-month decline since 2015

Core Capital Goods Orders

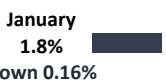


Weak February follows stronger January for business investment

Trade Balance



Core PCE YoY



Down 0.16%

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