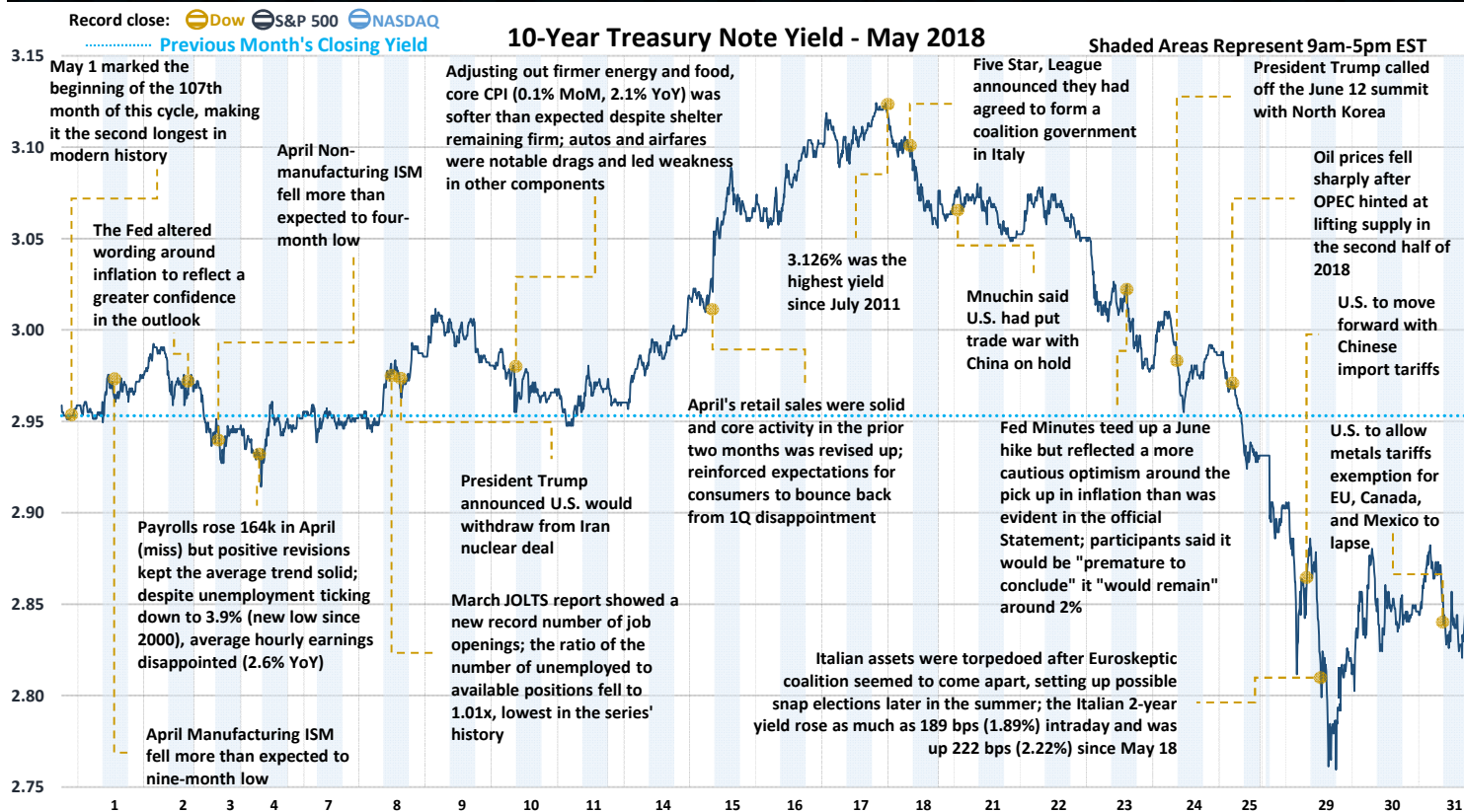


Monthly Review

May 2018

Italian Assets Roiled Markets Late Pulling Treasury Yields Down from Their Highest Levels in Years



Strong Retail Sales Pushed Yields to Their Highest Levels in Years before Italian Political Drama Sent Global Markets Reeling and Trade Concerns Returned

Markets: Equities leveraged early gains to notch a second monthly improvement despite market-moving political drama in Italy and a return of trade tensions later in the month. The on-again, off-again, on-again formation of a populist coalition government in Italy briefly roiled global assets before a round of announcements regarding tariffs revived fears of a global trade war. The U.S. said it would move forward with tariffs on Chinese imports and steel and aluminum brought in from the EU, Canada, and Mexico. Still, the S&P 500 rose 2.2% in its best month since January. While equities weathered the turmoil in Italy and a return of tariffs talk, the effect on Treasuries was longer-lasting. After setting multi-year highs across the curve, yields pulled back notably. The 2-year ended the month at 2.43% after climbing as high as 2.60%. The 10-year finished at 2.86% after it touched 3.13% earlier in the month. The market's expectations for Fed policy were also affected. After pricing in as much as a 44% chance of four total hikes in 2018 (three more) following strong retail sales data, fed funds futures ended May implying just an 86% chance of three total hikes (two more).

Consumer: April's retail sales were solid, personal spending data beat estimates, and confidence remained elevated. The combined effect was increased expectations that consumers will indeed bounce back from a sluggish three months from December to February. However, the dynamic of a tight labor market creating tepid wage pressures remained intact in the April data. Jobless claims remained near their lowest levels since the early 1970s. Job openings hit a new record high for the series and the number of unemployed persons per available position dropped to 1.01x, the lowest in the series' history. The economy added 164k jobs in April, above what economists expect is sustainable, and the unemployment rate dropped to 3.9%, the lowest level since 2000. Still, average hourly earnings grew just 2.6% YoY.

Private Investment: Business fixed investment in 1Q was revised higher across all major categories in the second look at GDP. And while both ISM reports fell to multi-month lows in April, every regional Fed survey strengthened and small business confidence improved. In addition, capital goods orders and shipments were better than expected. For housing, both new and existing sales fell short of estimates in April but there remained positive signs for demand. On average, existing homes sold in just 26 days from their initial listing date and home builder confidence ticked higher because of stronger current sales. However, evidence of stretched affordability also persisted. Freddie Mac's average 30-year mortgage rate hit a seven-year high and existing home inventory tightened on a YoY basis for a 35th consecutive month.

External Trade: March's trade deficit narrowed more than expected to \$49B and an advanced look at April's goods deficit provided a similar result. While generally dismissed as a volatile component of GDP, trade is likely to remain a major focus for markets because of resurgent trade war concerns.

Inflation: A monthly miss in April's CPI report stood in contrast to a faster-than-expected 0.2% rise in the Fed's preferred PCE measure. However, because of prior month revisions the YoY PCE rate remained at 1.8%. Producer and import prices were also softer than expected, keeping fears of runaway inflation in check.

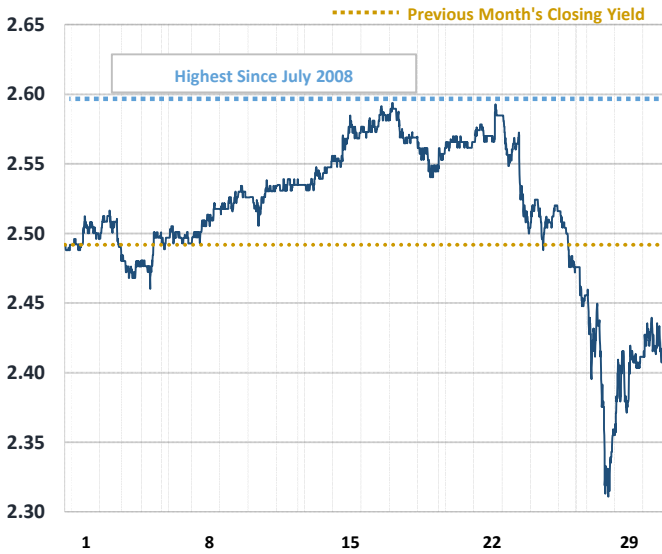
Monetary Policy: The Fed met in May and altered the official Statement's inflation language to reflect a greater confidence in achieving its 2% mandate. However, while the Minutes from that meeting teed up a June rate hike with the Fed's "likely soon be appropriate" signal phrase, they also alleviated fears that a growing consensus of officials might feel the need to hike more than is currently projected. The discussion related to inflation showed a greater degree of uncertainty around the sustainability of inflation than the Statement had let on. The Bank of England elected to defer any further tightening, for now, to allow time for more data to give clearer context to a recent slowing of activity and a quicker-than-expected retreat of above-target inflation.

Monthly Review

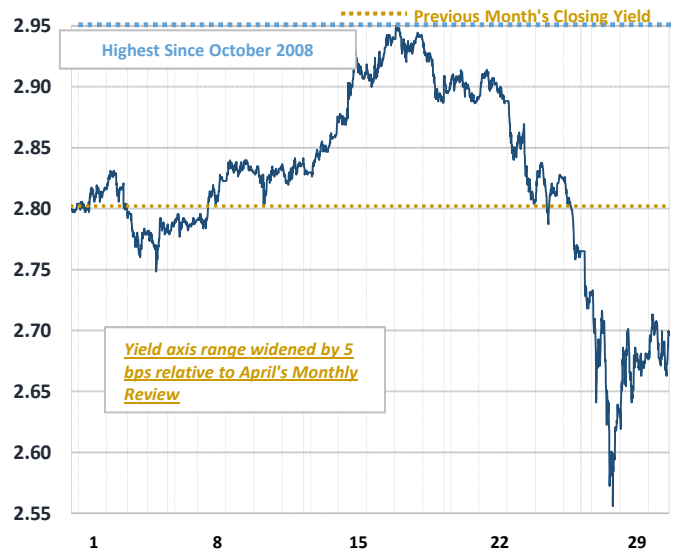
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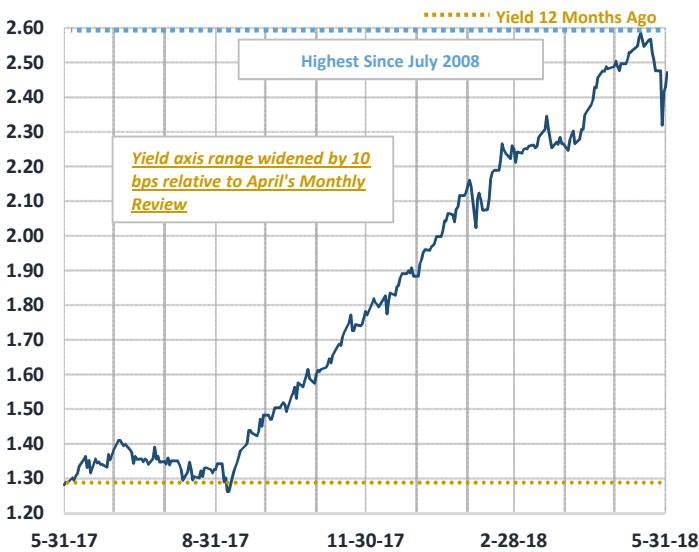
2-Year Treasury Note Yield - May 2018



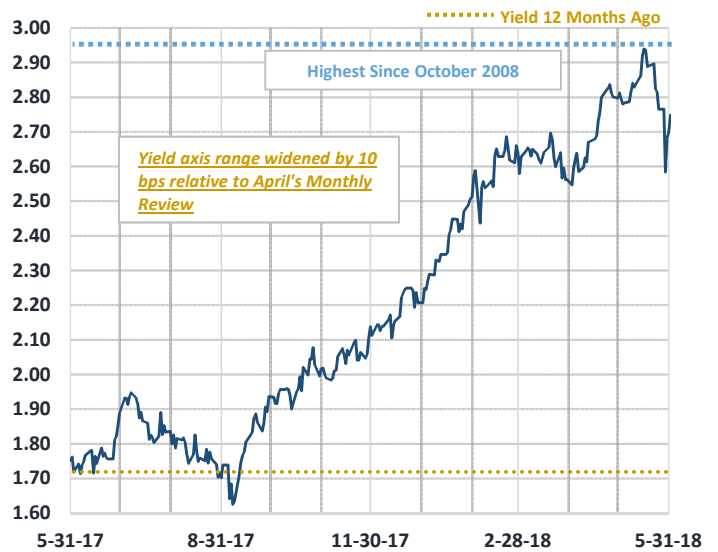
5-Year Treasury Note Yield - May 2018



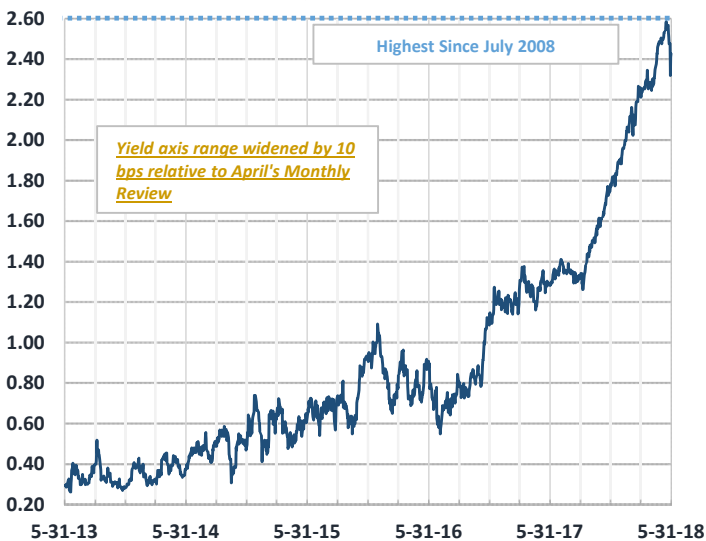
2-Year Treasury Note Yield - Last 12 Months



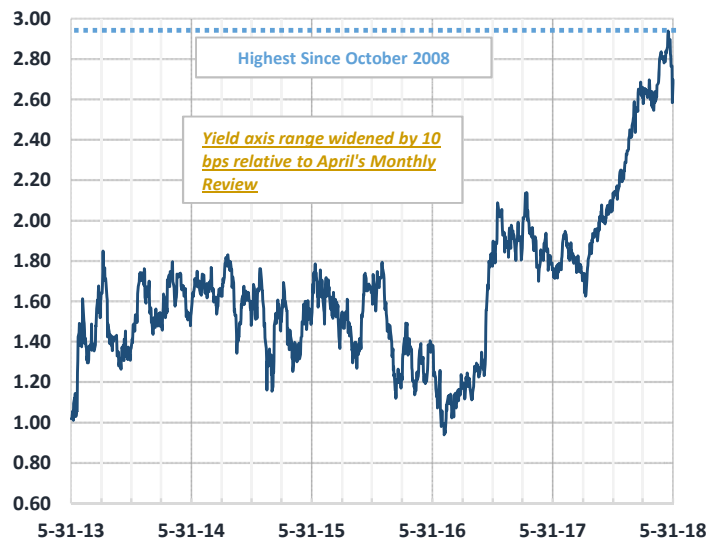
5-Year Treasury Note Yield - Last 12 Months



2-Year Treasury Note Yield - Last 5 Years



5-Year Treasury Note Yield - Last 5 Years

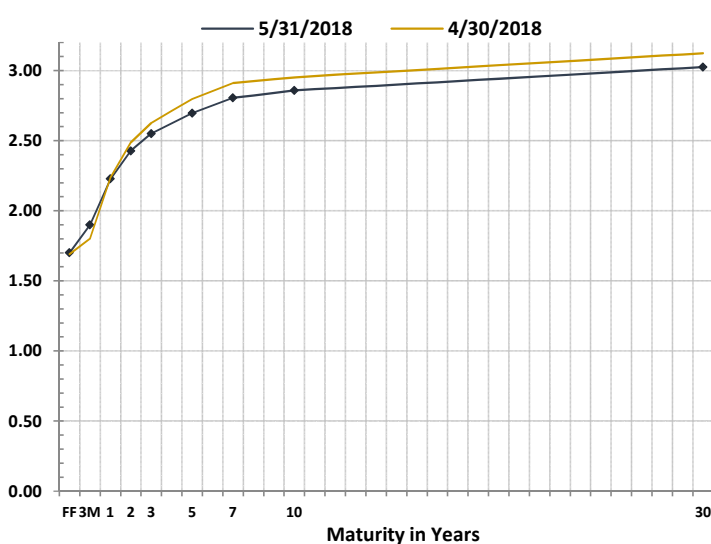


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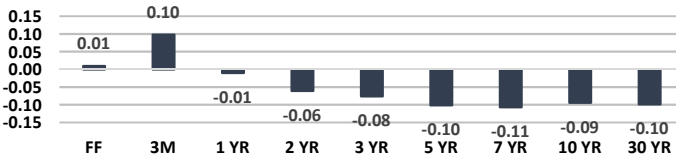
Treasury Month-Over-Month



	Value	MTD Change	QTD Change	YTD Change
Dow Jones	24,416	1.05% ↑	1.30% ↑	-1.23% ↓
S&P 500	2,705	2.16% ↑	2.44% ↑	1.18% ↑
Nasdaq	7,442	5.32% ↑	5.36% ↑	7.80% ↑
Stoxx Europe 600	383	-0.59% ↓	3.29% ↑	-1.57% ↓
China CSI 300	3,802	1.21% ↑	-2.47% ↓	-5.67% ↓
Nikkei 225	22,202	-1.18% ↓	3.48% ↑	-2.47% ↓

	Yield	MTD Change (in bps)	QTD Change (in bps)	YTD Change (in bps)
U.S. 2-year	2.43%	-6.1 ↓	16.1 ↑	54.4 ↑
U.S. 5-year	2.70%	-10.1 ↓	13.4 ↑	49.0 ↑
U.S. 10-year	2.86%	-9.5 ↓	12.0 ↑	45.3 ↑
German 10-year	0.34%	-21.8 ↓	-15.6 ↓	-8.6 ↓
U.K. 10-year	1.23%	-18.8 ↓	-12.0 ↓	4.0 ↑
French 10-year	0.67%	-11.8 ↓	-5.3 ↓	-11.7 ↓
Italian 10-year	2.79%	100.9 ↑	100.8 ↑	77.8 ↑
Japanese 10-year	0.04%	-1.5 ↓	-0.9 ↓	-0.8 ↓

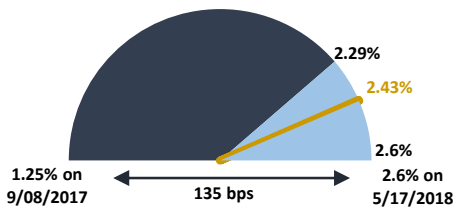
Month-Over-Month Change in Treasury Yields



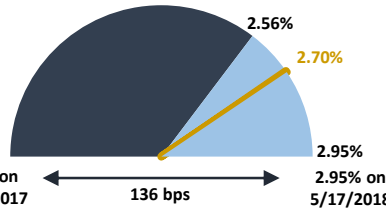
	Value	MTD Change	QTD Change	YTD Change
WTI Crude	\$ 67.04	-2.23% ↓	3.23% ↑	10.96% ↑
U.S. Dollar	93.98	2.33% ↑	4.45% ↑	2.01% ↑
Gold Spot	1,299	-1.28% ↓	-2.00% ↓	-0.35% ↓
Commodity Index	90.72	1.25% ↑	3.71% ↑	2.89% ↑

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

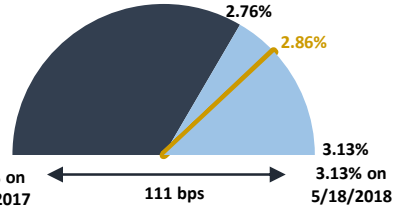
2-Year Treasury



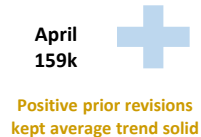
5-Year Treasury



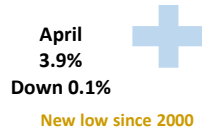
10-Year Treasury



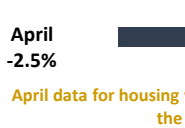
Nonfarm Payrolls



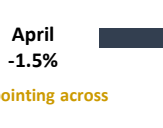
Unemployment Rate



Existing Home Sales MoM



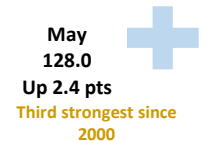
New Home Sales MoM



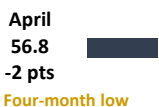
Core Retail Sales



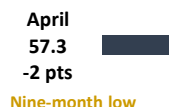
Consumer Confidence



ISM Non-Manufacturing



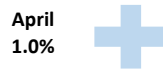
ISM Manufacturing



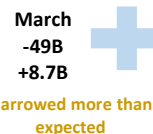
Manufacturing Production



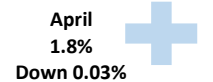
Core Capital Goods Orders



Trade Balance



Core PCE YoY



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