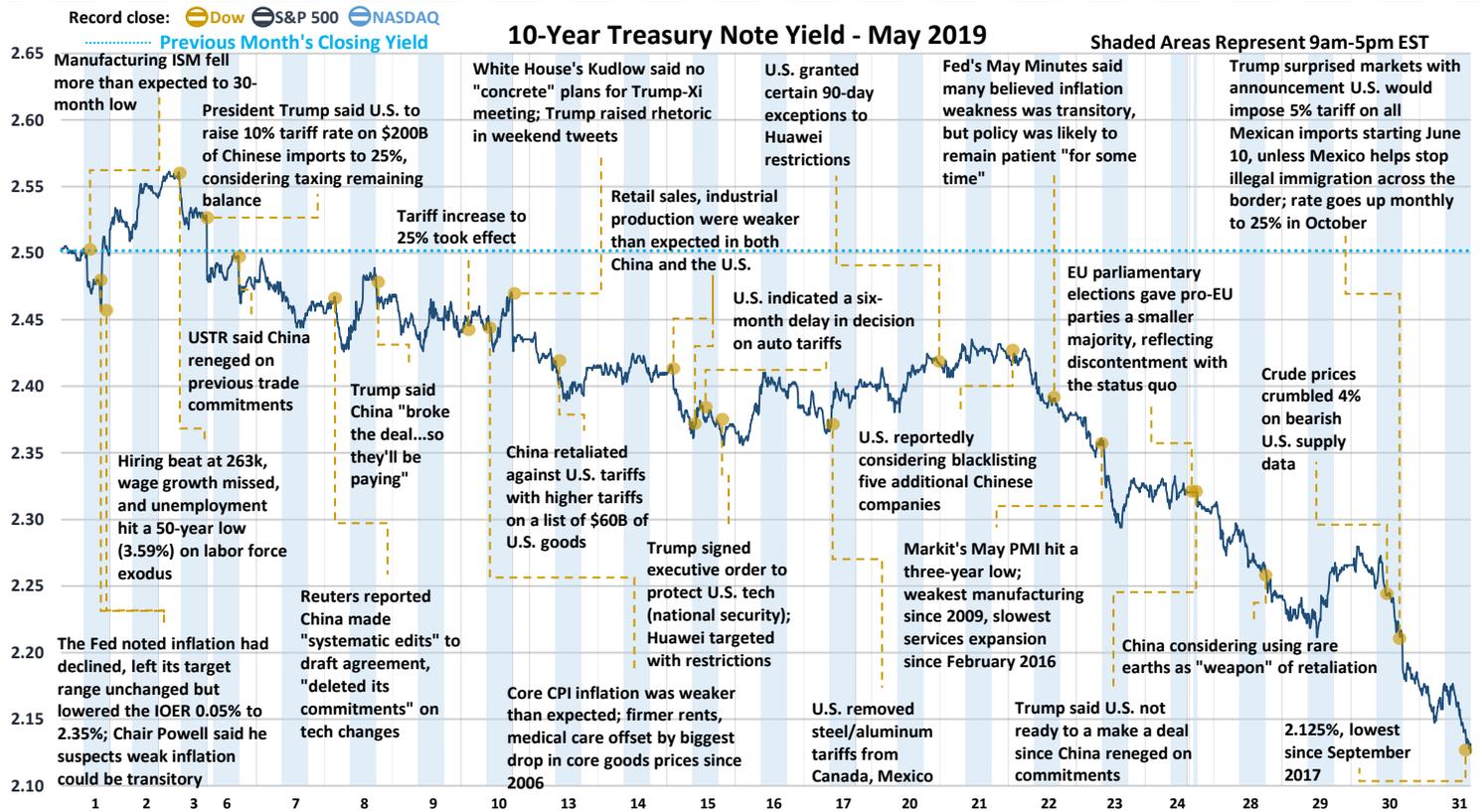


# Monthly Review

May 2019

VINING SPARKS

Unexpected Escalation of U.S.-China Tensions, Surprise Tariffs on Mexico Deepened Market Conviction for Fed Ease



## An Unexpected Escalation in U.S.-China Trade Tensions and a Surprise Announcement of Tariffs on Mexico Increased Market Expectations for a Fed Ease

**Markets:** Trade tensions returned unexpectedly in May, sending the S&P 500 down 6.6% and knocking 38 bps off the 10-year Treasury yield. President Trump caught markets off guard early by announcing the U.S. would raise the 10% tariff rate on \$200B of goods imported from China to 25%, and was considering taxing the remaining balance. Other top U.S. officials said it was in response to China reneging on key commitments it had made, a fact pattern confirmed by Reuters which reported China had made systematic edits to the agreement. China later retaliated with higher tariffs on roughly \$60B of U.S. goods, and the verbal shots back and forth continued for the remainder of the month. But the bigger surprise came just prior to May's final trading session. President Trump announced a 5% tariff on all Mexican imports unless the country helps cut-off the flow of illegal immigrants across the border. The tariff rate will go up each month until it reaches 25% in October, or until the White House is satisfied with Mexico's efforts to help. That final blow to sentiment cemented a steep decline in interest rates that left the 2-year yield at 1.92%, its lowest level since January 2018, and the 10-year yield at 2.12%, the lowest since September 2017. For context, the entire curve between the two notes ended below the Fed's target range. With markets worried about the economic impact of escalating uncertainty, Fed Funds futures repriced to reflect an expectation for 50 bps of easing by the end of 2019.

**Consumer:** Personal consumption in the first quarter was revised up modestly while April's personal spending showed no change in real activity to start the second quarter. The labor data continued to show little impact from ramped up uncertainty as hiring exceeded expectations and unemployment fell to a new low since 1969. Initial jobless claims remained low and wage growth held above 3%. Still, the renewed uncertainty could be a headwind in the months ahead. The initial estimate of consumer confidence from the University of Michigan was revised lower once responses from later in the month were collected. A similar story may play out when the Conference Board's index, which hit its fifth highest level of the cycle in the initial estimate, is revised for the full month of responses.

**Private Investment:** First quarter business investment was revised lower and early second-quarter indications are for continued disappointment. Capital goods orders and shipments were much weaker than expected in April, as were both ISM surveys. The manufacturing PMI fell to a 30-month low while the non-manufacturing index slipped to a 21-month low. Small business confidence did perk up in May, but likely did not capture increased trade worries. The May Markit PMIs may have, however, reflecting the slowest services activity since 2016 and the worst month for manufacturing since 2009. As for housing, home prices continued to slow but failed to boost activity. The S&P CoreLogic report on price gains slowed to its lowest level since 2012, but pending home sales, actual existing sales, and new home sales all fell more than expected.

**External Trade:** Advanced goods trade data showed less widening in the deficit than was expected, but total trade flows were weaker as both imports and exports declined amid the ongoing trade tensions.

**Inflation:** Core CPI inflation was weaker than expected in April on a big drop in goods prices, while the core PCE index posted its firmest month (0.25%) since October 2017. Both YoY rates moved up 0.1%, the Fed's preferred PCE measure to 1.57%, but remained notably below the Fed's target.

**Monetary Policy:** Fed Chair Powell said at the Fed's May 1 meeting that he expects the recent inflation weakness, highlighted in the Statement, would prove to be transient. May's Minutes showed most of his colleagues agreed. Still, those Minutes also said that policy was likely to remain patient "for some time...even if global...conditions continued to improve." May's FedSpeak acknowledged an increasingly uncertain outlook, but stopped short of signaling a rate cut in response just yet.

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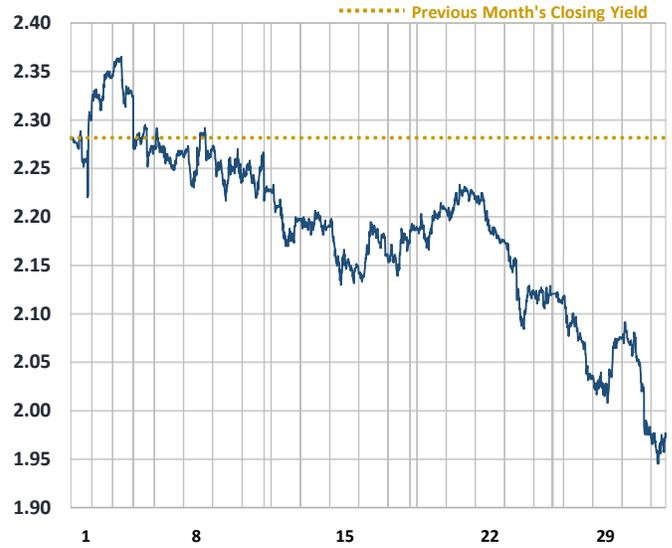
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2-Year Treasury Note Yield - May 2019



5-Year Treasury Note Yield - May 2019



2-Year Treasury Note Yield - Last 12 Months



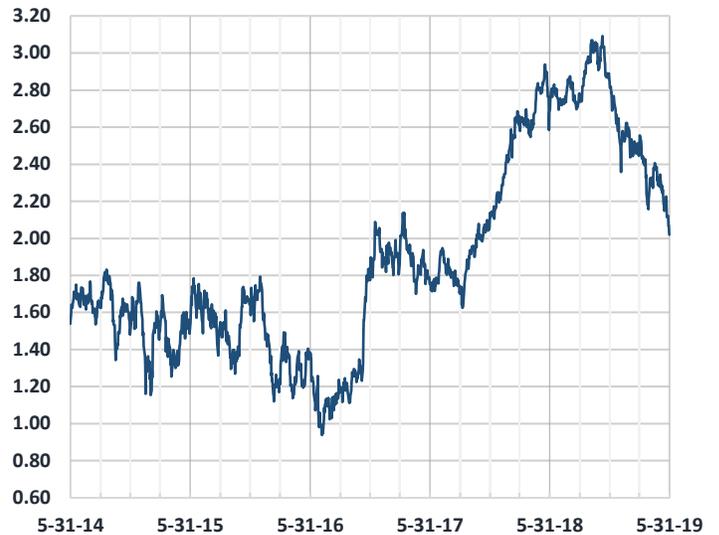
5-Year Treasury Note Yield - Last 12 Months



2-Year Treasury Note Yield - Last 5 Years



5-Year Treasury Note Yield - Last 5 Years

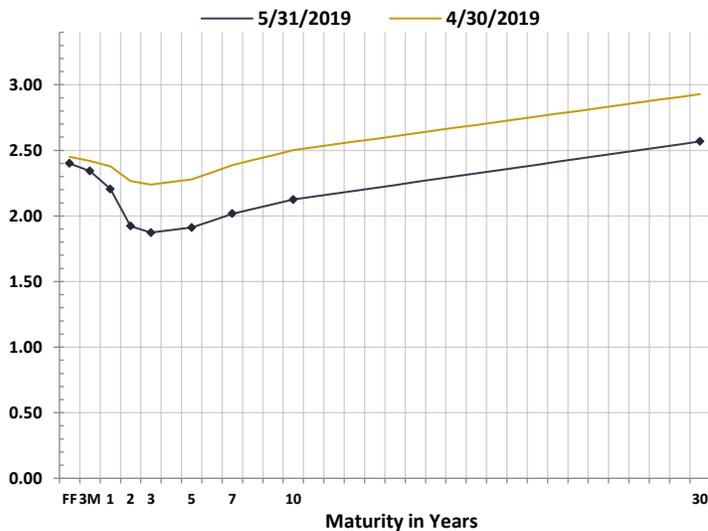


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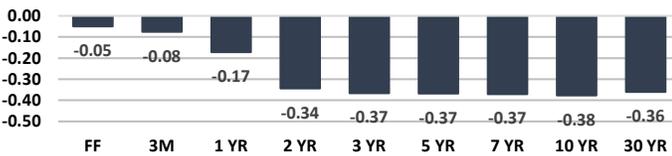
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Treasury Month-Over-Month



Month-Over-Month Change in Treasury Yields



Global Stock Performance

	Value	MTD Change	QTD Change	YTD Change
Dow Jones	24,815	-6.69% ↓	-4.30% ↓	6.38% ↑
S&P 500	2,752	-6.58% ↓	-2.91% ↓	9.78% ↑
Nasdaq	7,453	-7.93% ↓	-3.57% ↓	12.33% ↑
Stoxx Europe 600	369	-5.70% ↓	-2.65% ↓	9.30% ↑
China CSI 300	3,630	-7.24% ↓	-6.26% ↓	20.56% ↑
Nikkei 225	20,601	-7.45% ↓	-2.85% ↓	2.93% ↑

Global Sovereign Debt Performance

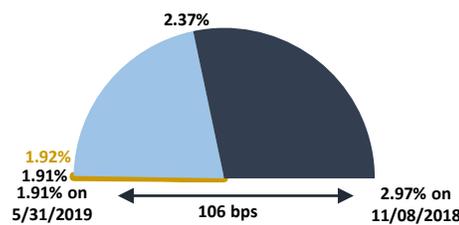
	Yield	MTD Change (in bps)	QTD Change (in bps)	YTD Change (in bps)
U.S. 2-year	1.92%	-34.4 ↓	-33.8 ↓	-56.6 ↓
U.S. 5-year	1.91%	-36.7 ↓	-32.2 ↓	-60.0 ↓
U.S. 10-year	2.12%	-37.7 ↓	-28.0 ↓	-56.0 ↓
German 10-year	-0.20%	-21.5 ↓	-13.2 ↓	-44.4 ↓
U.K. 10-year	0.89%	-29.9 ↓	-11.4 ↓	-39.1 ↓
French 10-year	0.21%	-15.8 ↓	-10.8 ↓	-50.0 ↓
Italian 10-year	2.67%	11.5 ↑	18.2 ↑	-7.2 ↓
Japanese 10-year	-0.09%	-5.4 ↓	-1.3 ↓	-9.7 ↓

Commodity Performance

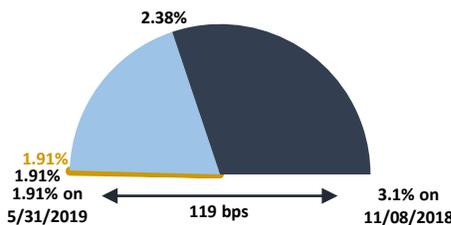
	Value	MTD Change	QTD Change	YTD Change
WTI Crude	\$ 53.50	-16.29% ↓	-11.04% ↓	17.82% ↑
U.S. Dollar	97.75	0.28% ↑	0.48% ↑	1.64% ↑
Gold Spot	1,305	1.71% ↑	1.02% ↑	1.79% ↑
Commodity Index	77.70	-3.56% ↓	-4.17% ↓	1.29% ↑

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

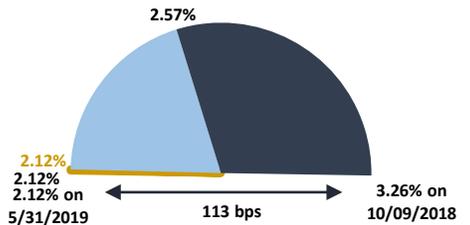
2-Year Treasury



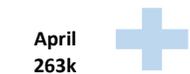
5-Year Treasury



10-Year Treasury



Nonfarm Payrolls



Unemployment rate hit a new near-50-year low of 3.59% on weaker participation

Unemployment Rate



Down 0.2%

Existing Home Sales MoM



New Home Sales MoM



Core Retail Sales



Expected +0.3%

Consumer Confidence



Up 4.9 pts  
May not fully capture trade concerns

ISM Non-Manufacturing



Manufacturing fell more than expected to a 30-month low; non-manufacturing fell to 21-month low

ISM Manufacturing



-2.5 pts

Manufacturing Production



Decline capped sharpest four-month drop since June 2009

Core Capital Goods Orders



Trade Balance



Up \$8.8 B

Core PCE YoY



Up 0.08%  
April was firmest month since 2017

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