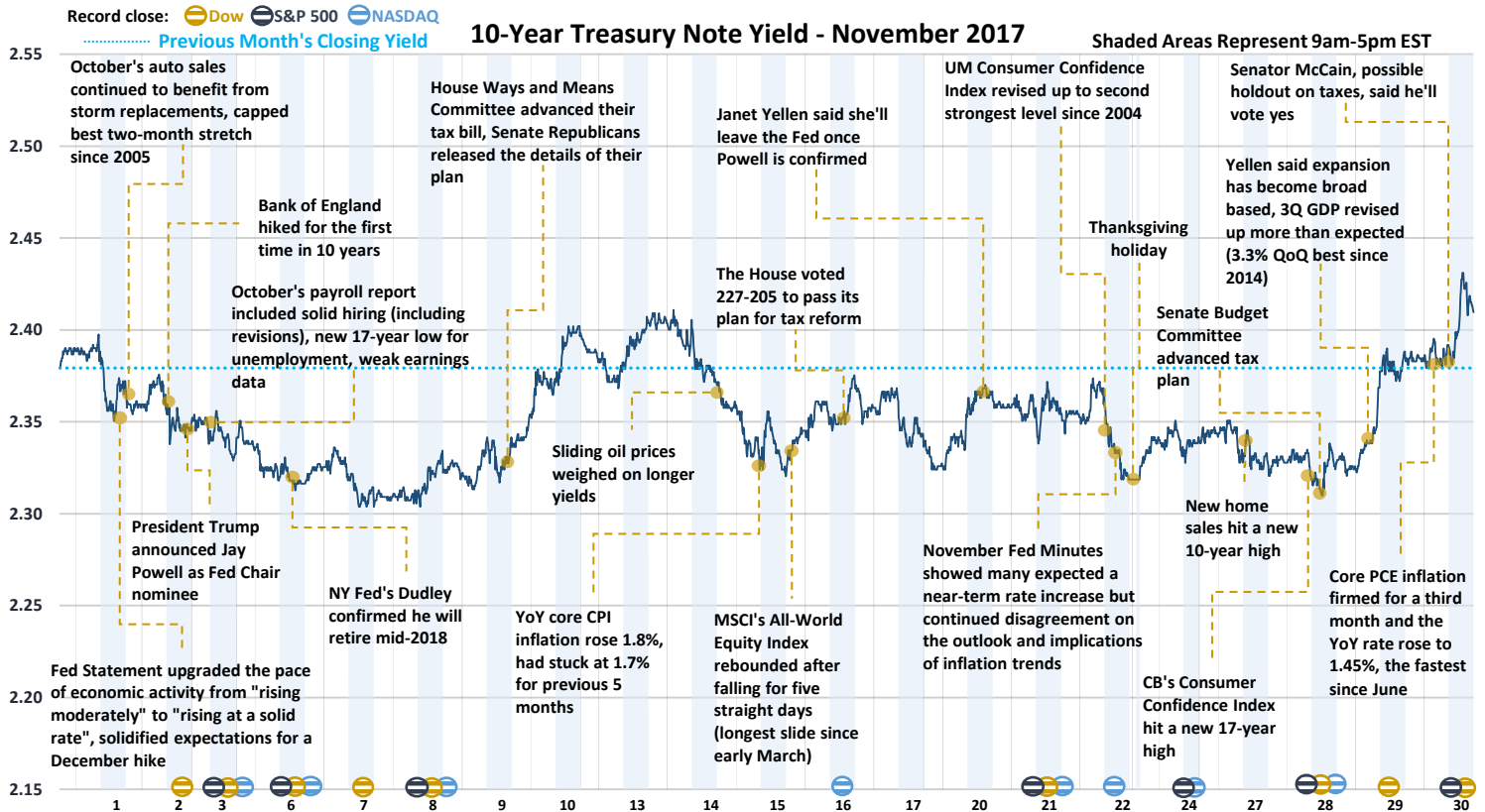


# Monthly Review

November 2017

Curve Flattened Again as Shorter Yields Climbed with Fed Expectations but Longer Yields Remained Stubbornly Steady



## Shorter Yields Rose with Fed Hike Expectations While Longer Yields Remained Stubbornly Steady Despite Solid Data, Progress on Tax Reform, and Stronger Stocks

**Markets:** U.S. stocks rose again in November and continued to play a part in the persistent global rally. The S&P gained 2.8% (Dow +3.8%, Nasdaq +2.2%) and ended higher for an eighth consecutive month, matching the longest run since a 9-month streak in 1983. The majority of the move occurred in the second half of the month as Republicans in the House and Senate made progress in the push for tax reform. Global momentum also remained firm with the MSCI All-World Index up for a 13th month, its longest winning run since the index's inception in 1987. Despite equities' exuberance around tax reform and a mostly positive tone in the economic data, longer Treasury yields hesitated to do much at all. In fact, the 10-year yield rose a net 3 bps and had a monthly high-low range of just over 13 bps. For context, that's the least volatile month since 2006 and the second quietest since 1979. However, shorter yields continued to march higher in anticipation of a December hike and additional gradual increases after that. The 2-year yield added 18 bps and fed funds futures were pricing in a 94% chance of a December hike and a more than 80% chance for two more in 2018. As a result, the Treasury curve experienced its most intense month of flattening since February 2016, when tanking oil prices took longer yields along for the ride.

**Consumer:** Despite a slightly negative 0.1% revision to personal consumption in 3Q, consumers remained as confident as they have been this cycle, the labor market data signaled continued tightening, and real disposable incomes rose the most since May. The Conference Board's consumer confidence index improved unexpectedly to a new 17-year high while the University of Michigan's was the second best since 2004. Monthly hiring figures were better than expected after adding in positive revisions and the unemployment rate reached a new 17-year low of 4.07%. Real spending was softer than expected in October but disposable incomes picked up and nudged the savings rate higher. The November data reinforced the fact pattern of solid fundamentals underlying the U.S. consumer.

**Private Investment:** Business investment in equipment was revised up to its best level since 2014 and the ISM indices remained strong. The Non-manufacturing ISM index hit a new cycle best in October. Manufacturing production in October jumped by the most in 8 years as the recovery from the hurricanes continued. Housing was the only sector to subtract from 3Q growth, but all signs were positive in October. All of the key housing reports released in November (for October) topped estimates; new home sales hit a 10-year high. And all of that occurred despite home prices continuing to rise at an above-6% YoY pace.

**External Trade:** The advance goods trade report showed a wider deficit for October, a softer start for 4Q. Trade remained accretive in 3Q after the first GDP revisions.

**Inflation:** Inflation firmed a bit in October according to both key measures. The YoY Core CPI rate improved to 1.8% after sticking at 1.7% for five consecutive months. In the PCE data, core prices rose for a third straight month, the longest run since 2009, and the YoY rate firmed to above 1.4%. That is still below the Fed's target, but it should provide officials some solace heading into their December meeting that the price measures are stabilizing.

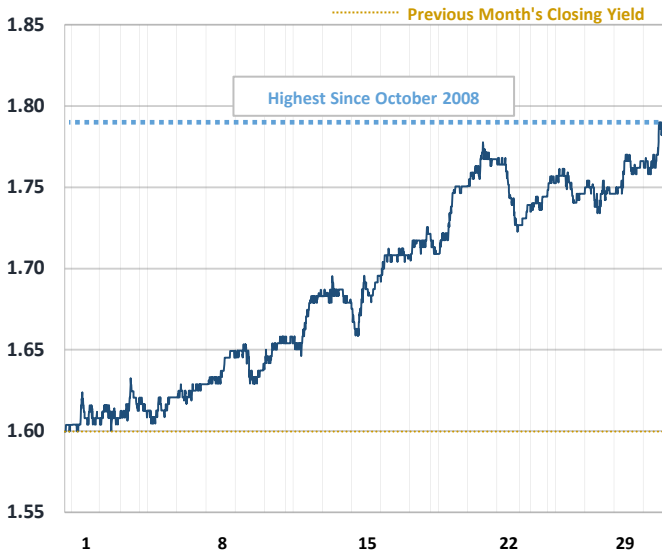
**Monetary Policy:** The Fed left rates unchanged at the November meeting but upgraded their assessment of economic activity from "rising moderately" to "rising at a solid rate". This was likely one reason why the Minutes from that meeting showed many officials expected a near-term rate increase. The President nominated current Fed Governor Powell to be the next Fed Chair which prompted current Chair Yellen to announce she would leave the Fed upon his confirmation. Also leaving is Bill Dudley from the New York Fed who announced he will retire in mid-2018. The Bank of England raised rates in November for the first time in 10 years to try and offset some of the currency-driven inflation experienced since the Brexit vote.

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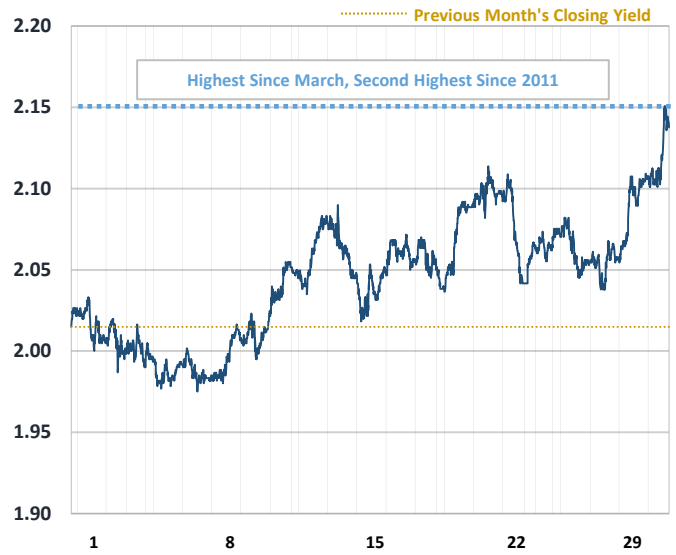
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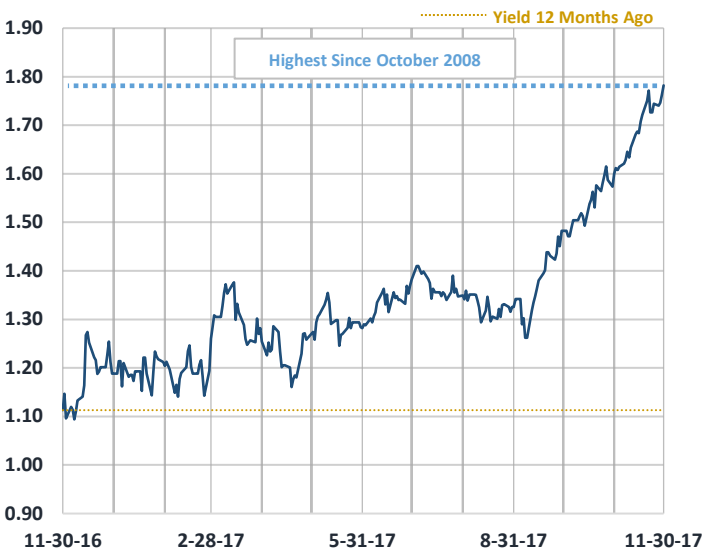
2-Year Treasury Note Yield - November 2017



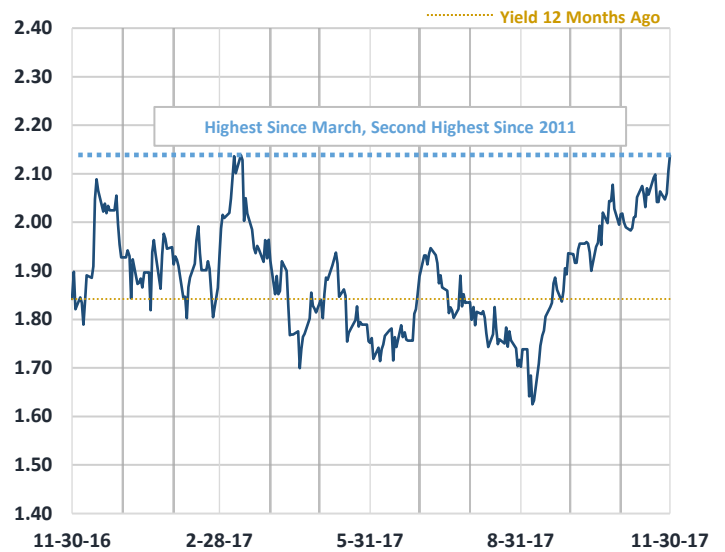
5-Year Treasury Note Yield - November 2017



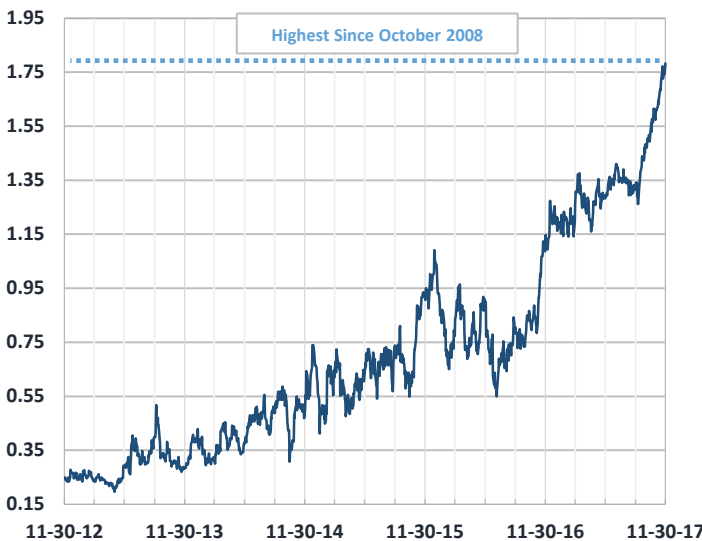
2-Year Treasury Note Yield - Last 12 Months



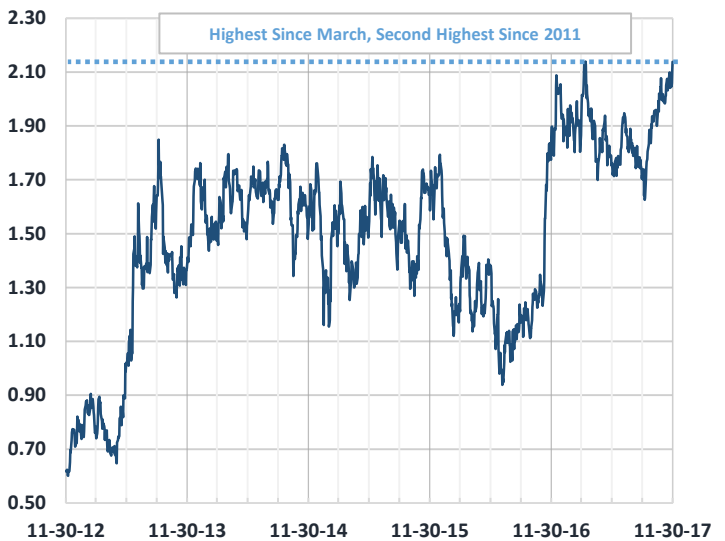
5-Year Treasury Note Yield - Last 12 Months



2-Year Treasury Note Yield - Last 5 Years



5-Year Treasury Note Yield - Last 5 Years

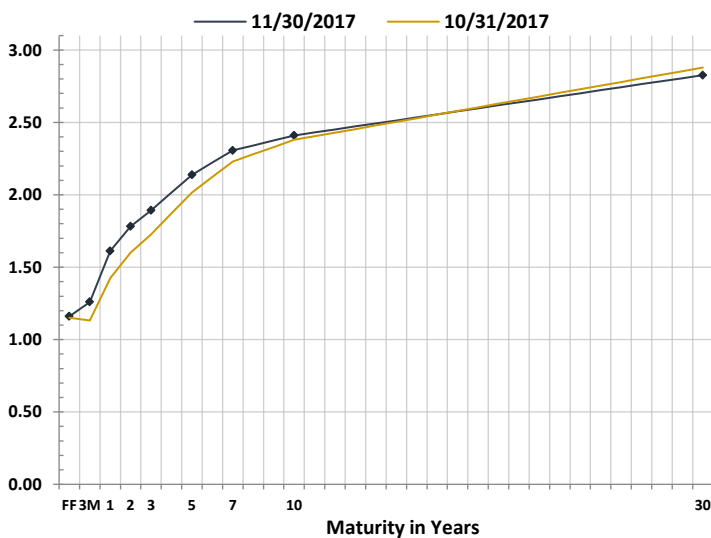


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Treasury Month-Over-Month



Month-Over-Month Change in Treasury Yields



Global Stock Performance

	Value	MTD Change	QTD Change	YTD Change
Dow Jones	24,272	3.83% ↑	8.33% ↑	22.82% ↑
S&P 500	2,648	2.81% ↑	5.09% ↑	18.26% ↑
Nasdaq	6,874	2.17% ↑	5.82% ↑	27.70% ↑
Stoxx Europe 600	387	-2.16% ↓	-0.38% ↓	6.99% ↑
China CSI 300	4,006	-0.02% ↓	4.42% ↑	21.03% ↑
Nikkei 225	22,725	3.24% ↑	11.64% ↑	18.89% ↑

Global Sovereign Debt Performance

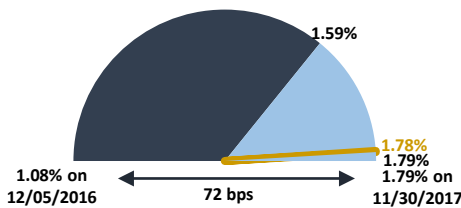
	Yield	MTD Change (in bps)	QTD Change (in bps)	YTD Change (in bps)
U.S. 2-year	1.78%	18.2 ↑	29.9 ↑	59.4 ↑
U.S. 5-year	2.14%	12.1 ↑	20.2 ↑	21.0 ↑
U.S. 10-year	2.41%	3.0 ↑	7.6 ↑	-3.5 ↓
German 10-year	0.37%	0.4 ↑	-9.7 ↓	15.9 ↑
U.K. 10-year	1.33%	-0.2 ↓	-3.5 ↓	9.1 ↑
French 10-year	0.68%	-7.3 ↓	-6.1 ↓	-0.4 ↓
Italian 10-year	1.75%	-7.9 ↓	-36.3 ↓	-6.7 ↓
Japanese 10-year	0.04%	-3.2 ↓	-2.9 ↓	-0.7 ↓

Commodity Performance

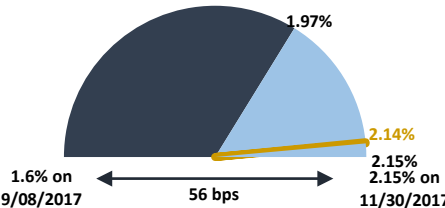
	Value	MTD Change	QTD Change	YTD Change
WTI Crude	\$ 57.40	5.55% ↑	11.09% ↑	6.85% ↑
U.S. Dollar	93.05	-1.59% ↓	-0.03% ↓	-8.96% ↓
Gold Spot	1,275	0.30% ↑	-0.41% ↓	10.65% ↑
Commodity Index	85.70	-0.56% ↓	1.47% ↑	-2.07% ↓

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

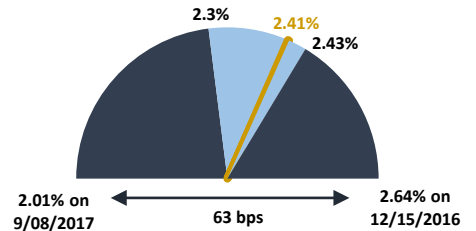
2-Year Treasury



5-Year Treasury



10-Year Treasury



Nonfarm Payrolls

October 261k



Better than expected when positive prior revisions added

Unemployment Rate

October 4.1%



Down 0.1%  
Lowest level since 2000

Existing Home Sales MoM

October 2.1%



Housing data was solid in October, new homes sales hit their strongest level in 10 years

New Home Sales MoM

October 6.2%



Business equipment outlook remained strong

Core Retail Sales

October 0.3%



Consumer Confidence

November 129.5



Up 3.3 pts  
New 17-year high

ISM Non-Manufacturing

October 60.1  
+0.3 pts



Non-manufacturing index hit highest level since 2005, manufacturing fell but remained strong

ISM Manufacturing

October 58.7  
-2.1 pts



Manufacturing Production

October 1.3%



Core Capital Goods Orders

October 0.3%



Trade Balance

September -44.9B  
-0.6B



Core PCE YoY

October 1.4%  
Up 0.09%



Fastest since June

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