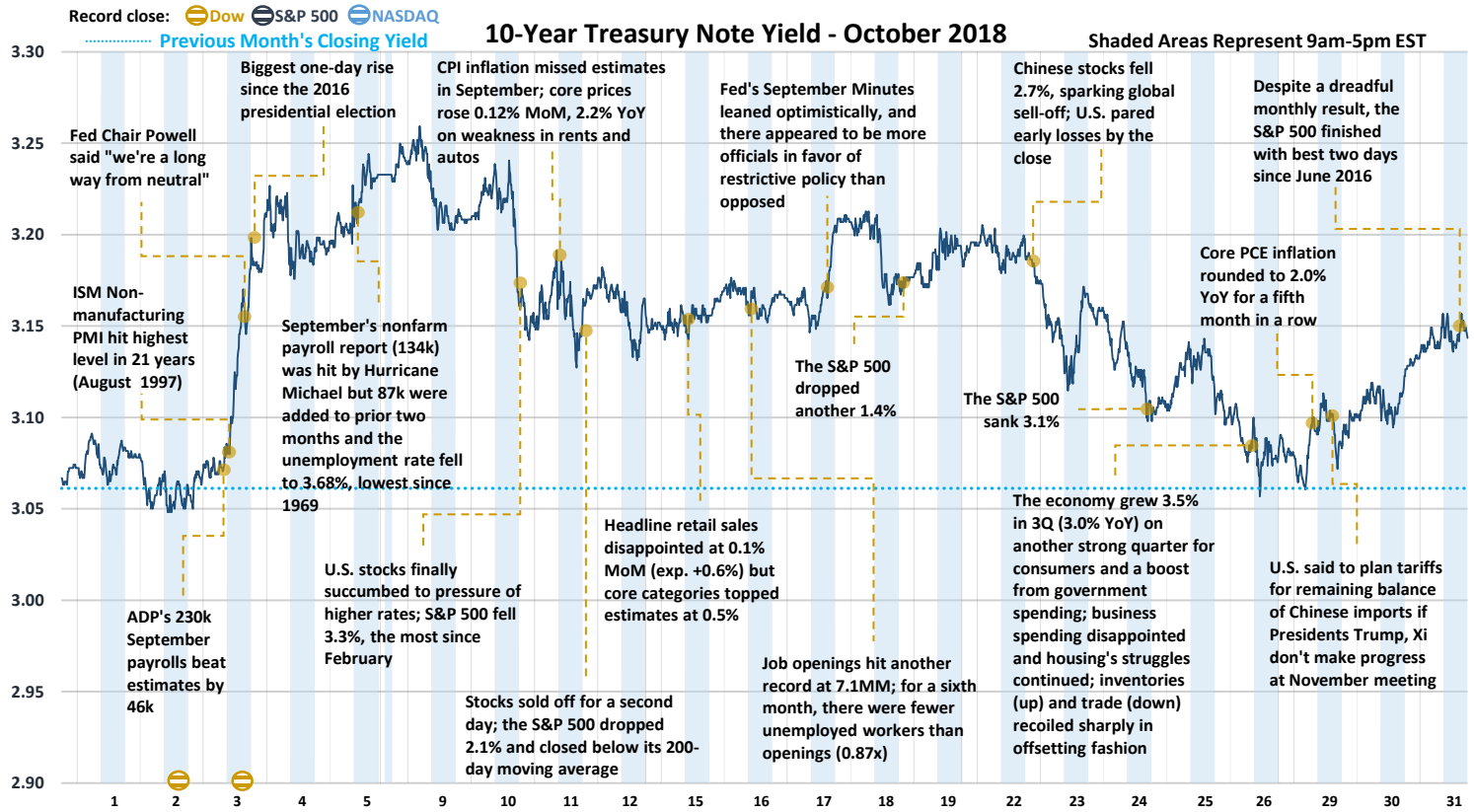


Monthly Review

October 2018

Another Episode of Higher Rates Hurting Stock Prices Sent S&P 500 to Worst Month Since September 2011



Higher Rates Sparked another Equity Sell-Off, Compounded by Concerns of Slower Global Economic Activity and Further Escalation of the U.S.-China Trade Dispute

Markets: Reminiscent of February's episode, surging interest rates sparked a stock market sell-off that made October the worst month for the S&P 500 since September 2011. Treasury yields jumped sharply on October 3 after a couple of surprisingly strong economic reports preceded Fed Chair Powell saying policy was "a long way from neutral." Equities initially ignored the spike but came under notable pressure within days. The weakness was compounded by concerns of slowing growth, stirred by several major companies posting disappointing quarterly results and sounding cautious about the outlook, and fears of further escalation in the U.S.-China trade dispute. The White House said tariffs are planned for the remaining balance of Chinese imports if no progress is made when Presidents Trump and Xi meet in November. The Nasdaq plunged 9.2%, the S&P 500 tumbled 6.9%, and the Dow dropped 5.1%. The flight-to-quality caused by the turmoil in equity markets cut into the sharp, early spike in Treasury yields. After rising as much as 9.4 bps, the 2-year yield finished up 4.8 bps. The 10-year yield rose as much as 19.8 bps but ended October just 8.2 bps higher.

Consumer: Consumer spending remained strong in September, leading the broader economy to another solid quarter of growth. Adding 3Q's 3.5% growth to 2Q's 4.2% pace, the economy closed out its best back-to-back stretch since 2014 and the YoY growth rate accelerated for a record ninth quarter in a row. By almost every measure, the labor market remained hot. The unemployment rate fell to 3.68%, the lowest since 1969, and there was less than one worker per job opening for a sixth month in a row. Average hourly earnings grew 2.8% YoY and wages within the employment cost index were up 2.9%, the fastest of the cycle. However, spending outpaced income growth for a seventh consecutive month, dropping the savings rate to its lowest level since 2013 and raising questions about the durability of the recent trend. Still, consumers remained confident. The University of Michigan reported a slightly weaker sentiment index but the Conference Board's was the best since 2000.

Private Investment: Housing's struggles are well known by now and September's data was no antidote. Residential investment contracted in 3Q for a fifth time in the last six quarters and September's data showed another disappointing month for the sector. Despite a huge quarter for inventories, which added 2.1% to 3Q GDP, business fixed investment was disappointing and the capital goods data failed to stir excitement about a near-term boost to equipment spending. The trend in orders was roughly as expected but shipments were weak. However, business confidence remains steady. Small business optimism was the second strongest on record and the ISM non-manufacturing index rose to a 21-year high. Despite a monthly pullback, the manufacturing PMI was the fourth best since 2004.

External Trade: As expected, the trade deficit widened notably in 3Q and dragged 1.8% from overall GDP. The threat of a trade war between the U.S. and China was blamed for wild swings in trade flows in recent months as buyers and sellers tried to avoid being caught in the crossfire.

Inflation: Consumer Price Inflation (CPI) was softer than expected (2.2% Core YoY) but the Fed's preferred measure rounded to 2.0% for a fifth month in a row. Still, there are few signs of significant inflation pressures.

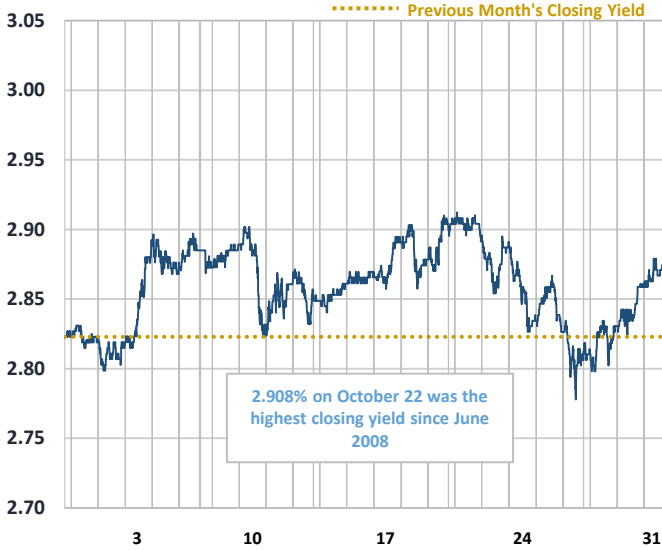
Monetary Policy: The Fed's calendar didn't include an October meeting, but the September Minutes were released during the month and made headlines. Overall, the tone was slightly more hawkish than expected and showed more officials seemed in favor of restrictive policy than opposed. Most Fed officials who made public remarks during the month said the monthly market volatility had not yet affected their outlook. The ECB confirmed they expect to end net asset purchases after December and kept their risk assessment as roughly balanced despite some weakness in the recent economic data. The BoJ made no policy changes but trimmed their inflation forecast.

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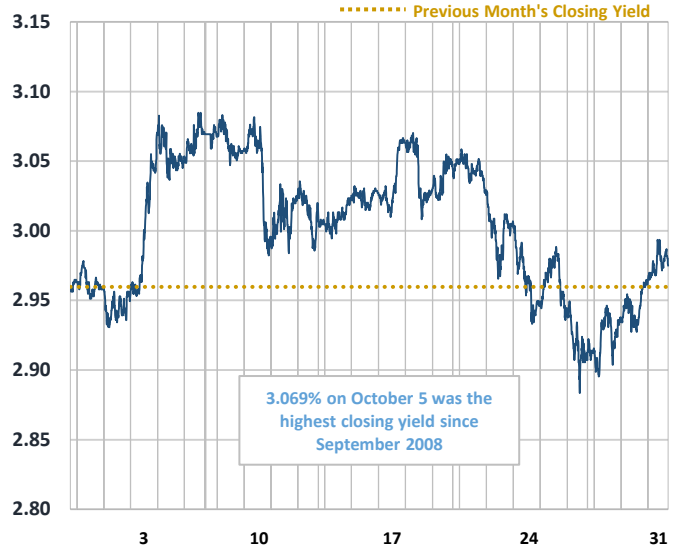
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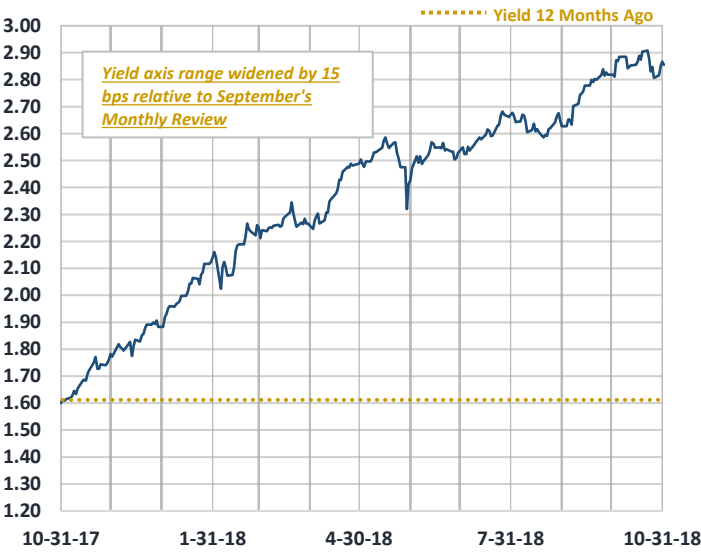
2-Year Treasury Note Yield - October 2018



5-Year Treasury Note Yield - October 2018



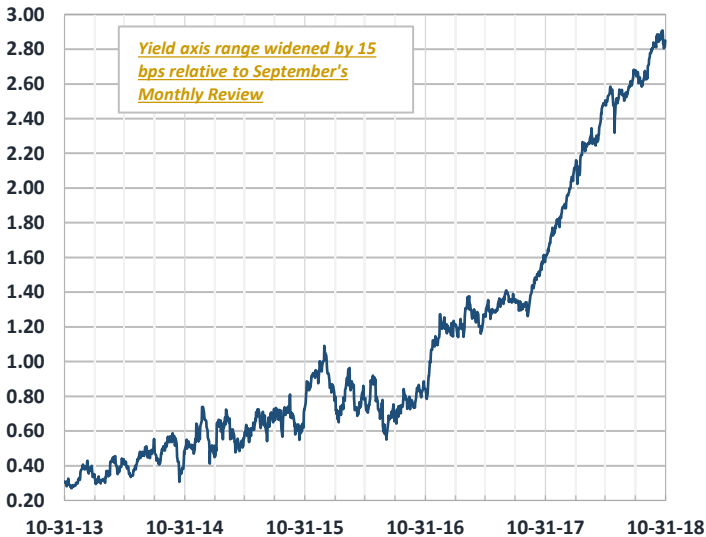
2-Year Treasury Note Yield - Last 12 Months



5-Year Treasury Note Yield - Last 12 Months



2-Year Treasury Note Yield - Last 5 Years



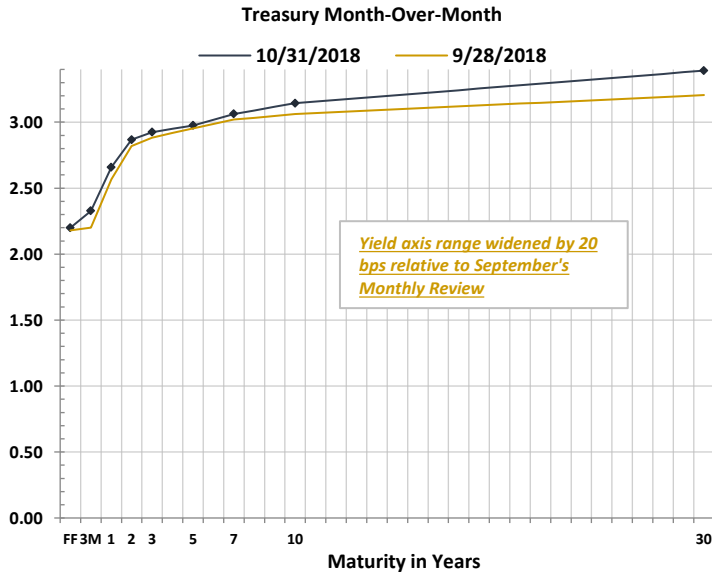
5-Year Treasury Note Yield - Last 5 Years



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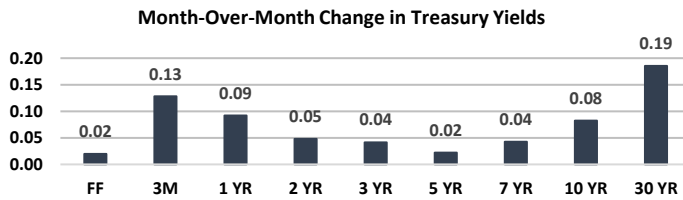
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Global Stock Performance				
	Value	MTD Change	QTD Change	YTD Change
Dow Jones	25,116	-5.07% ↓	-5.07% ↓	1.60% ↑
S&P 500	2,712	-6.94% ↓	-6.94% ↓	1.43% ↑
Nasdaq	7,306	-9.20% ↓	-9.20% ↓	5.83% ↑
Stoxx Europe 600	362	-5.63% ↓	-5.63% ↓	-7.08% ↓
China CSI 300	3,154	-8.29% ↓	-8.29% ↓	-21.76% ↓
Nikkei 225	21,920	-9.12% ↓	-9.12% ↓	-3.71% ↓

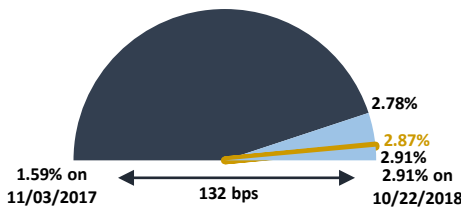
Global Sovereign Debt Performance				
	Yield	MTD Change (in bps)	QTD Change (in bps)	YTD Change (in bps)
U.S. 2-year	2.87%	4.8 ↑	4.8 ↑	98.4 ↑
U.S. 5-year	2.97%	2.2 ↑	2.2 ↑	76.9 ↑
U.S. 10-year	3.14%	8.2 ↑	8.2 ↑	73.8 ↑
German 10-year	0.39%	-8.5 ↓	-8.5 ↓	-4.2 ↓
U.K. 10-year	1.44%	-13.6 ↓	-13.6 ↓	24.7 ↑
French 10-year	0.75%	-5.3 ↓	-5.3 ↓	-3.4 ↓
Italian 10-year	3.43%	28.0 ↑	28.0 ↑	141.1 ↑
Japanese 10-year	0.13%	-0.3 ↓	-0.3 ↓	7.9 ↑



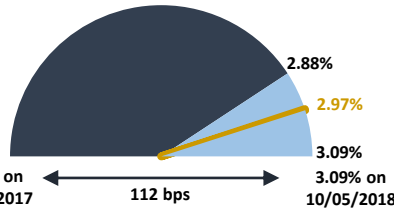
Commodity Performance				
	Value	MTD Change	QTD Change	YTD Change
WTI Crude	\$ 65.31	-10.84% ↓	-10.84% ↓	8.09% ↑
U.S. Dollar	97.13	2.10% ↑	2.10% ↑	5.43% ↑
Gold Spot	1,215	1.87% ↑	1.87% ↑	-6.78% ↓
Commodity Index	83.19	-2.36% ↓	-2.36% ↓	-5.65% ↓

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

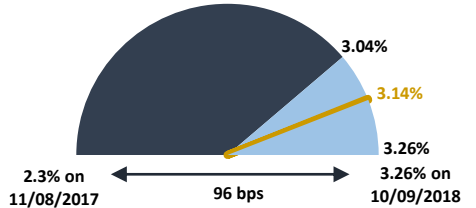
2-Year Treasury



5-Year Treasury



10-Year Treasury



Nonfarm Payrolls September 134k Impacted by Hurricane Michael; +87k in prior revisions	Unemployment Rate September 3.7% Down 0.2% 3.68% is the lowest since Dec. 1969	Existing Home Sales MoM September -3.4% Housing's struggles were reinforced by larger-than-expected declines in sales of both new (expected -0.6%) and existing (-0.9%) homes	New Home Sales MoM September -5.5%	Core Retail Sales September 0.5%	Consumer Confidence October 137.9 Up 2.6 pts Highest since September 2000
ISM Non-Manufacturing September 61.6 +3.1 pts Non-manufacturing jumped to 21-year high; Manufacturing fell to its fourth best since 2004	ISM Manufacturing September 59.8 -1.5 pts	Manufacturing Production September 0.2%	Core Capital Goods Orders September -0.1% Better than expected when combined with prior revisions	Trade Balance August -53.2B -3.2B	Core PCE YoY September 2.0% Up 0.01% Rounded to 2.0% for a sixth month in a row

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