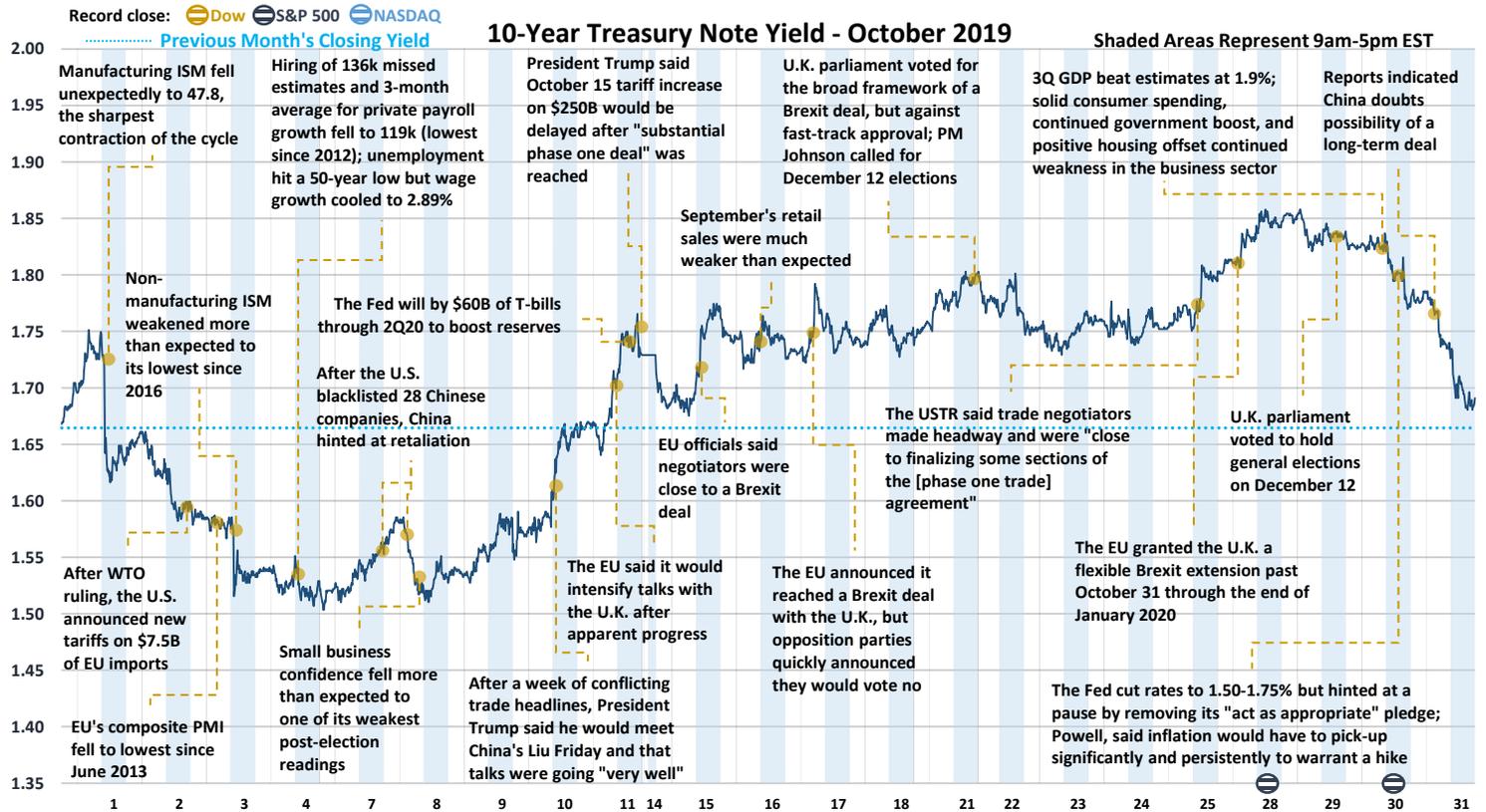


Monthly Review

October 2019

Uncertainties Led to the Fed's Third Rate Cut Which They Believe Completes the Mid-Cycle Adjustment



Persistent Trade Uncertainty and Worries that Global Weakness Was Continuing to Weigh on U.S. Growth Led the Fed to Cut Rates Again before Signaling a Pause

Markets: Treasury yields and stocks both set their monthly lows early after weaker-than-expected ISM data raised worries about the health of the U.S. economy and trade tensions escalated ahead of a key meeting of top officials. However, those talks ended with President Trump announcing that a "substantial phase one trade deal" was reached. The resultant recovery in sentiment regained momentum after the U.S. said officials were "close to finalizing" sections of the phase one agreement and the EU granted the U.K. a Brexit extension. However, yields turned back lower after the Fed cut rates, despite the changed forward guidance that signaled a pause of the "mid-cycle adjustment," after Fed Chair Powell raised the bar for any chance of rate hike. On the final day of the month, the post-Fed yield drop intensified on reports China doubted a long-term trade deal was possible and after a regional U.S. manufacturing survey slumped. The S&P 500 rose 2.0% in October while the 10-year yield, after reaching as high as 1.86%, ended up just 3 bps at 1.69%. Despite the Fed's pause, the markets head into November with the greatest conviction of another rate cut in the months ahead since the phase one deal was reached. As a result, the 2-year yield ended the month down 10 bps and the curve steepened 13 bps to 16 bps.

Consumer: Consumer spending slowed to a still-solid 2.9% in 3Q after a stellar 4.6% gain in 2Q. The trajectory, however, turned softer as retail sales ended a solid six-month run and September's payroll report offered mixed signals about the health of the labor market. The unemployment rate dropped to a new 50-year low of 3.52% but wage growth cooled to 2.89%, a 14-month low. There were positive prior hiring revisions but September's tally missed estimates and private payroll growth matched its weakest annual pace since 2011. Causing the greatest concern, however, was the unexpectedly weak retail sales report which raised questions of if broader weakness was starting to affect the largest component of the economy. For now, both measures of confidence improved in October but remain below better levels from a year ago.

Private Investment: Business investment contracted in 3Q at the second sharpest rate since the financial crisis and the outlook continued to deteriorate. The ISM's manufacturing index reflected the most severe contraction since the recession while the services survey slipped to its weakest level since 2016. Additionally, the NFIB's small business optimism index fell more than expected to one of its weakest post-election readings on broadly weaker fundamentals. That uneasiness filtered into the actual spending results with weakness in equipment orders and shipments signaling investment may remain weak. While new and existing home sales both cooled, the benefit of lower rates remained evident in the broader housing trends and housing added to growth in 3Q for the first time since 2017.

External Trade: Trade was a negligible drag on 3Q GDP but data showed goods imports and exports weakened, a sign slower global growth has persisted.

Inflation: The annual core CPI inflation held at 2.4% in September, despite a cooler monthly result. The Fed's preferred measure, however, edged lower from 1.77% to 1.67%. Both measures reflected goods pricing cooling after a strong run while services held steady. Overall pressures remain muted.

Monetary Policy: After significant changes in September, the ECB held policy steady in President Draghi's final meeting. The BoJ also made no changes but strengthened its forward guidance to hint at easing if the outlook deteriorates. The Fed cut rates for a third time this year to a target range of 1.50-1.75%, but the Statement's pledge to "act as appropriate" was replaced with a plan to "assess" the appropriate future path based on incoming data, signaling a policy pause for now. While Powell reiterated that stance, he also opined that it would take a "significant move up in inflation that's persistent" to warrant a hike. The balanced synopsis indicates most officials believe the current range is "likely to remain appropriate" absent a "material reassessment" of the outlook or an unexpected and lasting strengthening in inflation.

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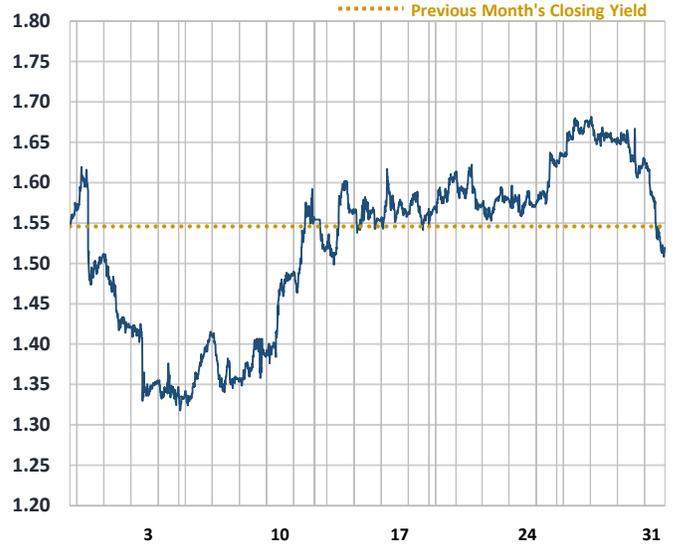
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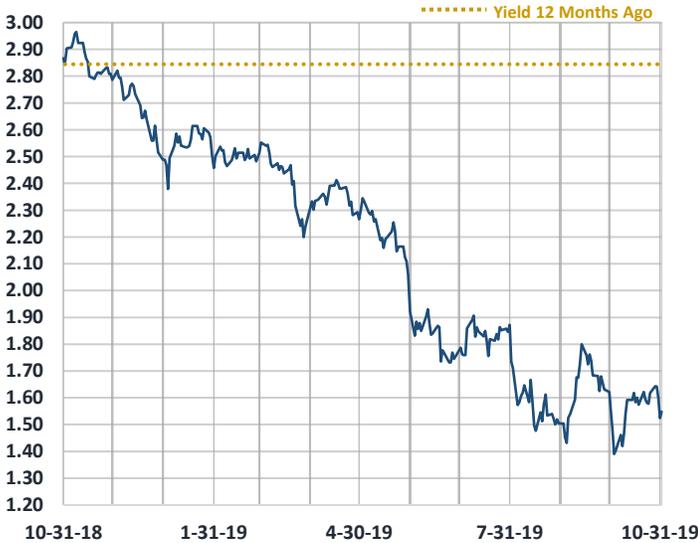
2-Year Treasury Note Yield - October 2019



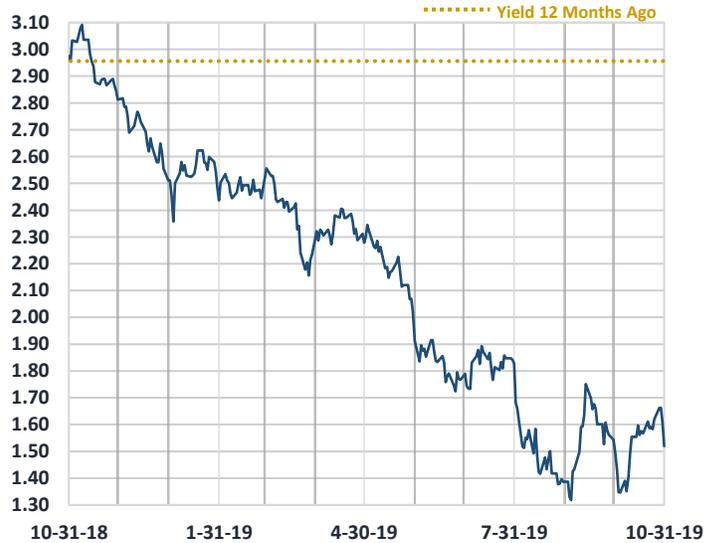
5-Year Treasury Note Yield - October 2019



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

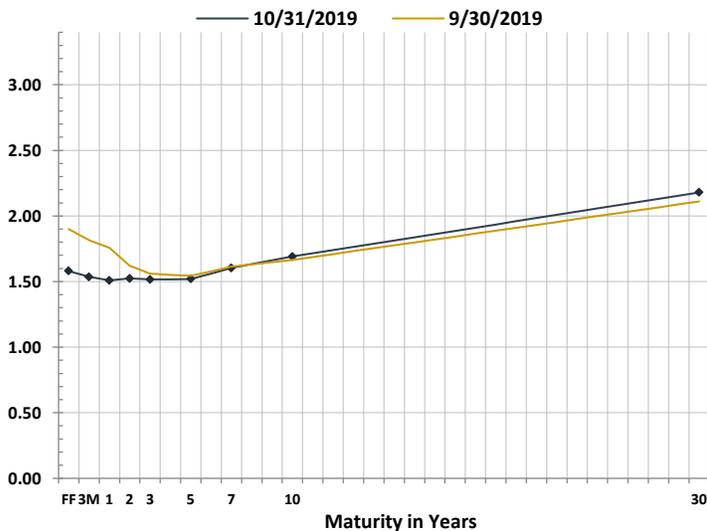


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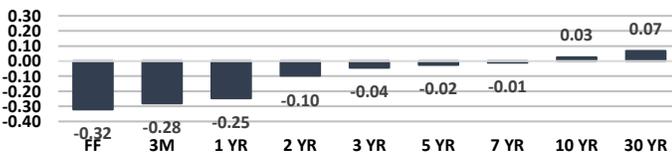
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Treasury Month-Over-Month



Month-Over-Month Change in Treasury Yields



Global Stock Performance

	Value	MTD Change	QTD Change	YTD Change
Dow Jones	27,046	0.48% ↑	0.48% ↑	15.94% ↑
S&P 500	3,038	2.04% ↑	2.04% ↑	21.17% ↑
Nasdaq	8,292	3.66% ↑	3.66% ↑	24.97% ↑
Stoxx Europe 600	397	0.92% ↑	0.92% ↑	17.50% ↑
China CSI 300	3,887	1.89% ↑	1.89% ↑	29.10% ↑
Nikkei 225	22,927	5.38% ↑	5.38% ↑	14.55% ↑

Global Sovereign Debt Performance

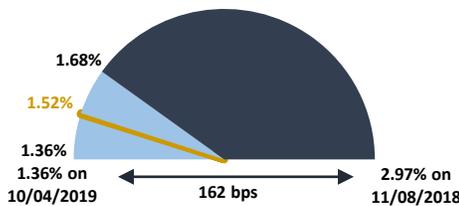
	Yield	MTD Change (in bps)	QTD Change (in bps)	YTD Change (in bps)
U.S. 2-year	1.52%	-9.8 ↓	-9.8 ↓	-96.4 ↓
U.S. 5-year	1.52%	-2.5 ↓	-2.5 ↓	-99.2 ↓
U.S. 10-year	1.69%	2.6 ↑	2.6 ↑	-99.3 ↓
German 10-year	-0.41%	16.4 ↑	16.4 ↑	-64.9 ↓
U.K. 10-year	0.63%	14.1 ↑	14.1 ↑	-64.8 ↓
French 10-year	-0.10%	17.7 ↑	17.7 ↑	-80.7 ↓
Italian 10-year	0.92%	10.1 ↑	10.1 ↑	-181.9 ↓
Japanese 10-year	-0.13%	8.0 ↑	8.0 ↑	-13.6 ↓

Commodity Performance

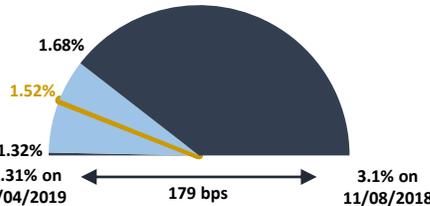
	Value	MTD Change	QTD Change	YTD Change
WTI Crude	\$ 54.18	0.20% ↑	0.20% ↑	19.31% ↑
U.S. Dollar	97.35	-2.04% ↓	-2.04% ↓	1.23% ↑
Gold Spot	1,513	2.75% ↑	2.75% ↑	17.97% ↑
Commodity Index	79.24	1.87% ↑	1.87% ↑	3.29% ↑

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

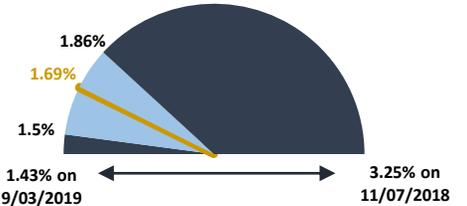
2-Year Treasury



5-Year Treasury



10-Year Treasury



Nonfarm Payrolls

September 136k

Unemployment Rate

September 3.5%
Down 0.2%

While the unemployment rate hit a new 50-year low, wage growth cooled back below 3.0%

Existing Home Sales MoM

September -2.2%

New Home Sales MoM

September -0.7%

Core Retail Sales

September 0.0%

Flat core spending in September ended a solid 6-month run

Consumer Confidence

October 125.9
Down 0.4 pts

Weakness was widespread

ISM Non-Manufacturing

September 52.6
-3.8 pts

Deepest manufacturing contraction since the recession, weakest non-manufacturing since 2016

ISM Manufacturing

September 47.8
-1.3 pts

Manufacturing Production

September -0.5%

The GM strike dragged, but other activity was also weak

Core Capital Goods Orders

September -0.5%

Business spending outlook appears weaker than expected

Trade Balance

August -54.9B
-0.9B

Core PCE YoY

September 1.7%
Down 0.11%

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