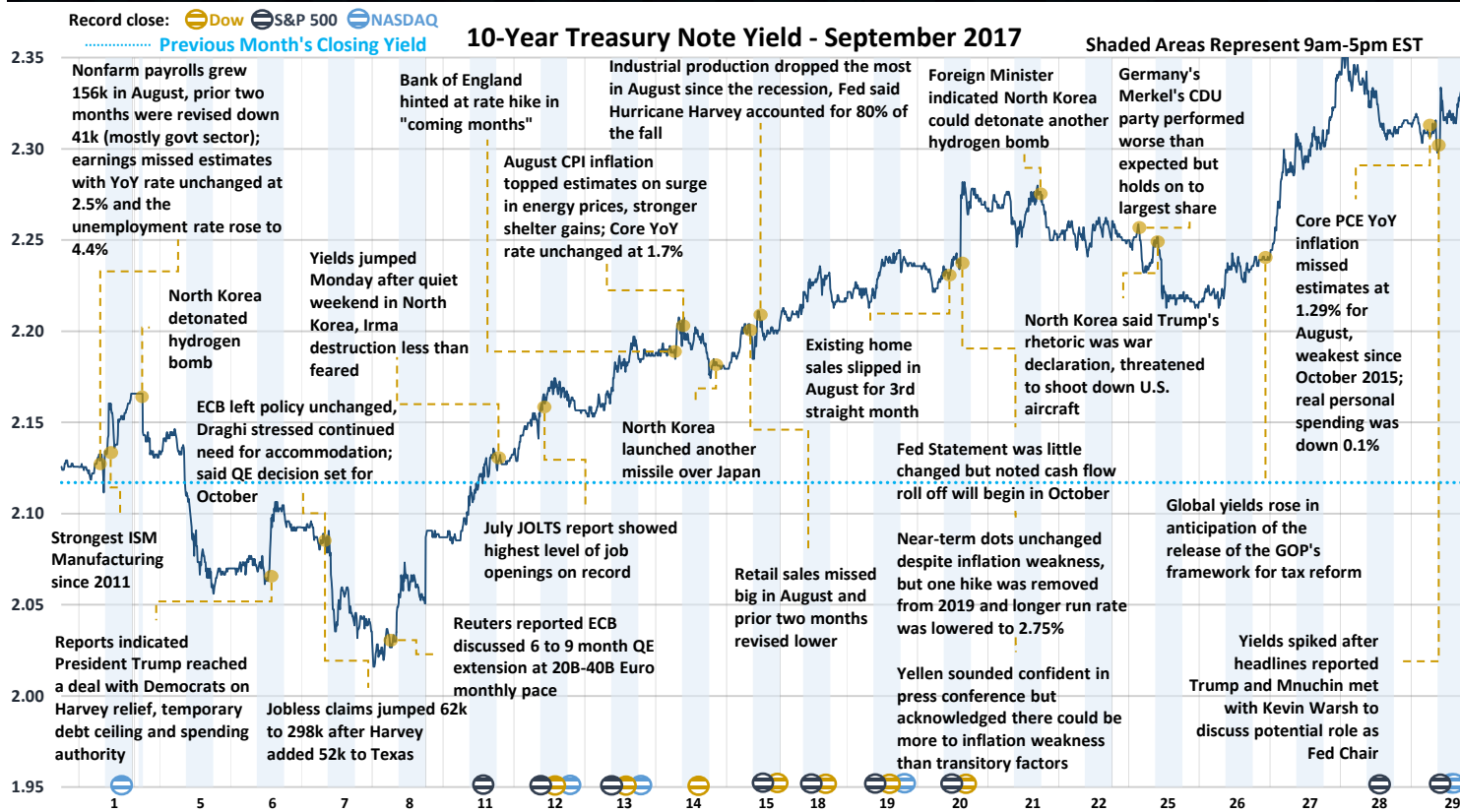


Monthly Review

September 2017

Yields Snapped Back in September after Fears of Hurricane Irma, North Korea Faded Early



Yields Snapped Back in September as Geopolitical Tensions Waned, the Fed's Near-term Dots Remained Hawkish, and the GOP Released its Tax Reform Framework

Markets: Treasury yields rose in September by the most since November's post-election surge. Hurricane Irma was less devastating than feared, markets became less sensitive to geopolitical tensions, the Fed kept their 2017 and 2018 rate forecast unchanged, and Republicans released details of their tax reform framework. An early-month Treasury rally pushed the 10-year yield to a new post-election low of 2.016%. However, momentum shifted on the 11th and yields rose in 11 of the next 15 sessions. The 10-year yield finished up 21.7 bps while the 2-year yield also rebounded 15.7 bps, leaving the curve 6 bps steeper. The S&P followed a similar path to a gain of 1.8%, its sixth consecutive monthly improvement. After falling to its weakest level since January 2015, the Dollar recovered and rose for the first month since February. With the Fed's rate forecast unchanged between now and December 2018, fed funds futures repriced to the highest implied rate for December 2018 (1.59%) since early July.

Consumer: Consumer spending data through August indicates a slower pace of spending so far in 3Q. After personal consumption was confirmed at +3.3% in final 2Q GDP revisions, real spending was reported down 0.1% in August following a 0.2% increase in September. August's retail sales report had predicted the overall weakness and the details offered mixed signals of the impact of Hurricane Harvey. Nonetheless, the expectation is that the hurricanes will impact spending in September and overall growth in 3Q. The hurricanes did affect jobless claims and economists' forecasts show an expected impact to the September payroll report. August's payroll report was an overall disappointment and wage gains remained weak. Average hourly earnings rose at 2.5% YoY pace for a fifth month.

Private Investment: Private investment data in August showed a continuation of the recent trends; housing continues to look weak but business spending continues to firm. While the hurricanes impacted activity in the South, the housing weakness was broad across most regions. Existing home sales fell 1.7% while new home sales dropped 3.4%. Housing starts and building permits were weak and pending home sales disappointed. Prices continued to rise and affordability remains an issue. On the business side, capital goods orders and shipments easily exceeded estimates for August and July's data was revised better. Industrial production tumbled the most since the recession but the Fed indicated 80% of the drop was caused by Hurricane Harvey. In addition to the better spending data, the ISM manufacturing report was the best since 2011 and small business confidence rose. The number of survey respondents planning capital expenditures hit its highest level since 2006.

External Trade: The trade data received in September was better than expected but the Dollar's first positive month in the last seven is something to keep an eye on.

Inflation: August's CPI inflation was boosted by energy prices and rents but there was a continued absence of broader price pressures. The core YoY rate held at 1.7%. The Fed's preferred PCE inflation measure missed estimates and the core YoY rate dropped to 1.29%, the weakest since October 2015. The two reports will hardly settle the debate at the Fed as to whether the recent weakness is transitory or more persistent.

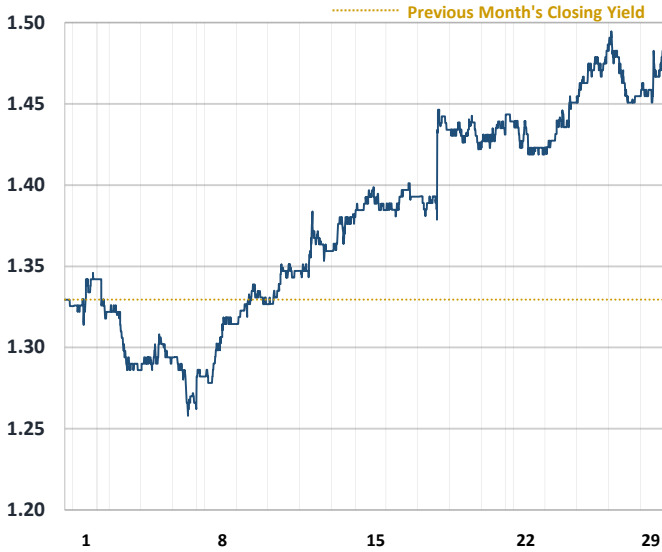
Monetary Policy: The Fed announced in September that it will begin its balance sheet roll off in October. In its updated projections, the Fed kept its call for one more hike this year and three more in 2018. However, it cut the number of forecasted hikes for 2019 from three to two and lowered the longer run rate from 3.00% to 2.75%. Monthly FedSpeak showed officials remain divided on the nature of inflation weakness. Nonetheless, the near-term hawkish projections caused markets to raise the probability of a December hike from 30% to 64%. The ECB continued to stress better growth but subdued inflation pressure while setting an October announcement date for what to expect of its QE program past the current December expiration. The BoE hinted at rate hike in coming months but said any increases will be gradual.

Monthly Review

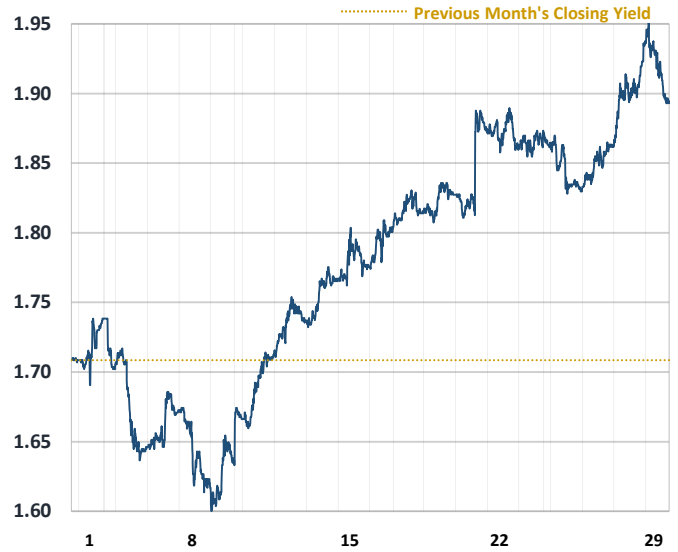
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2-Year Treasury Note Yield - September 2017



5-Year Treasury Note Yield - September 2017



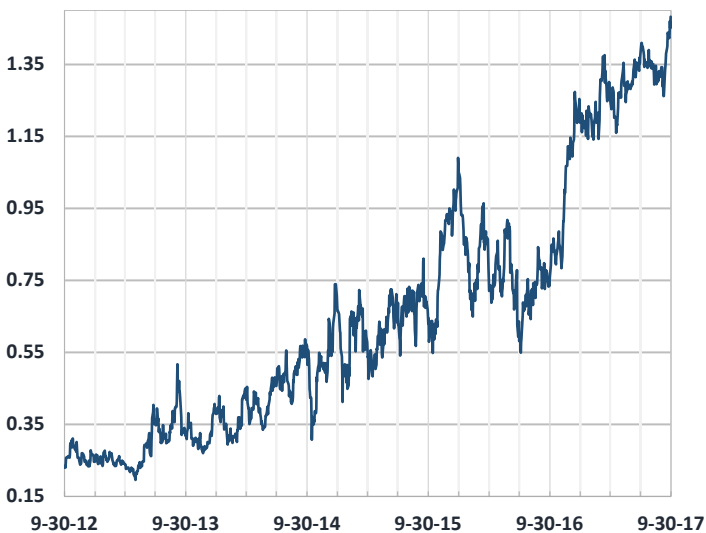
2-Year Treasury Note Yield - Last 12 Months



5-Year Treasury Note Yield - Last 12 Months



2-Year Treasury Note Yield - Last 5 Years



5-Year Treasury Note Yield - Last 5 Years

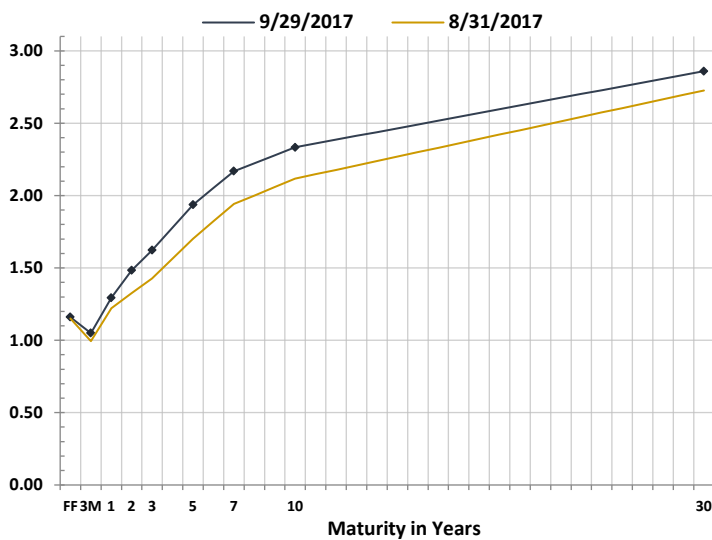


Monthly Review

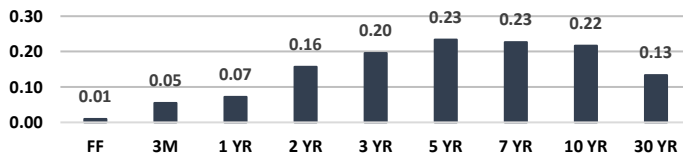
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Treasury Month-Over-Month



Month-Over-Month Change in Treasury Yields



Global Stock Performance

	Value	MTD Change	QTD Change	YTD Change
Dow Jones	22,405	2.08% ↑	4.94% ↑	13.37% ↑
S&P 500	2,519	1.93% ↑	3.96% ↑	12.53% ↑
Nasdaq	6,496	1.05% ↑	5.79% ↑	20.67% ↑
Stoxx Europe 600	388	3.82% ↑	2.32% ↑	7.40% ↑
China CSI 300	3,837	0.38% ↑	4.63% ↑	15.90% ↑
Nikkei 225	20,356	3.61% ↑	1.61% ↑	6.50% ↑

Global Sovereign Debt Performance

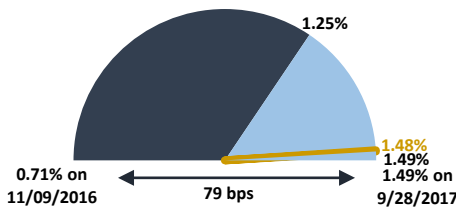
	Yield	MTD Change (in bps)	QTD Change (in bps)	YTD Change (in bps)
U.S. 2-year	1.48%	15.7 ↑	10.1 ↑	29.4 ↑
U.S. 5-year	1.94%	23.4 ↑	4.8 ↑	0.9 ↑
U.S. 10-year	2.33%	21.7 ↑	3.0 ↑	-11.1 ↓
German 10-year	0.46%	10.3 ↑	-0.2 ↓	25.6 ↑
U.K. 10-year	1.37%	33.1 ↑	10.8 ↑	12.6 ↑
French 10-year	0.74%	8.1 ↑	-7.2 ↓	5.7 ↑
Italian 10-year	2.11%	6.6 ↑	-4.7 ↓	29.6 ↑
Japanese 10-year	0.07%	5.9 ↑	-1.8 ↓	2.2 ↑

Commodity Performance

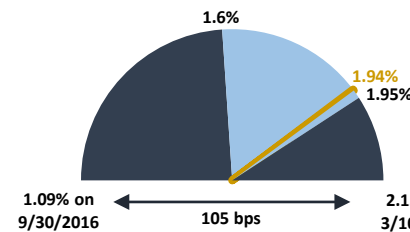
	Value	MTD Change	QTD Change	YTD Change
WTI Crude	\$ 51.67	9.40% ↑	12.23% ↑	-3.82% ↓
U.S. Dollar	93.08	0.44% ↑	-2.67% ↓	-8.94% ↓
Gold Spot	1,280	-3.12% ↓	3.11% ↑	11.10% ↑
Commodity Index	84.46	-0.23% ↓	2.25% ↑	-3.49% ↓

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

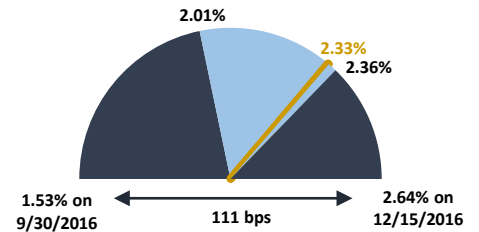
2-Year Treasury



5-Year Treasury



10-Year Treasury



Nonfarm Payrolls

August 156k

Overall disappointing report; AHE YoY stuck at 2.5%

Unemployment Rate

August 4.4%
Up 0.1%

151k more unemployed (77k labor force entrants, 74k fewer employed)

Existing Home Sales MoM

August -1.7%

Hurricanes impacted the data, but the weakness continues to be broad based

New Home Sales MoM

August -3.4%

3Q business investment data remained solid

Core Retail Sales

August -0.2%

Consumer Confidence

September 119.8
Down 0.6 pts

Down but still strong

ISM Non-Manufacturing

August 55.3
+1.4 pts

ISM Manufacturing

August 58.8
+2.5 pts
Strongest since 2011

Manufacturing Production

August -0.3%
Harvey had a big impact

Core Capital Goods Orders

August 0.9%

Trade Balance

July -43.7B
-0.1B

Core PCE YoY

August 1.3%
Down 0.12%
Slowest since October 2015

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