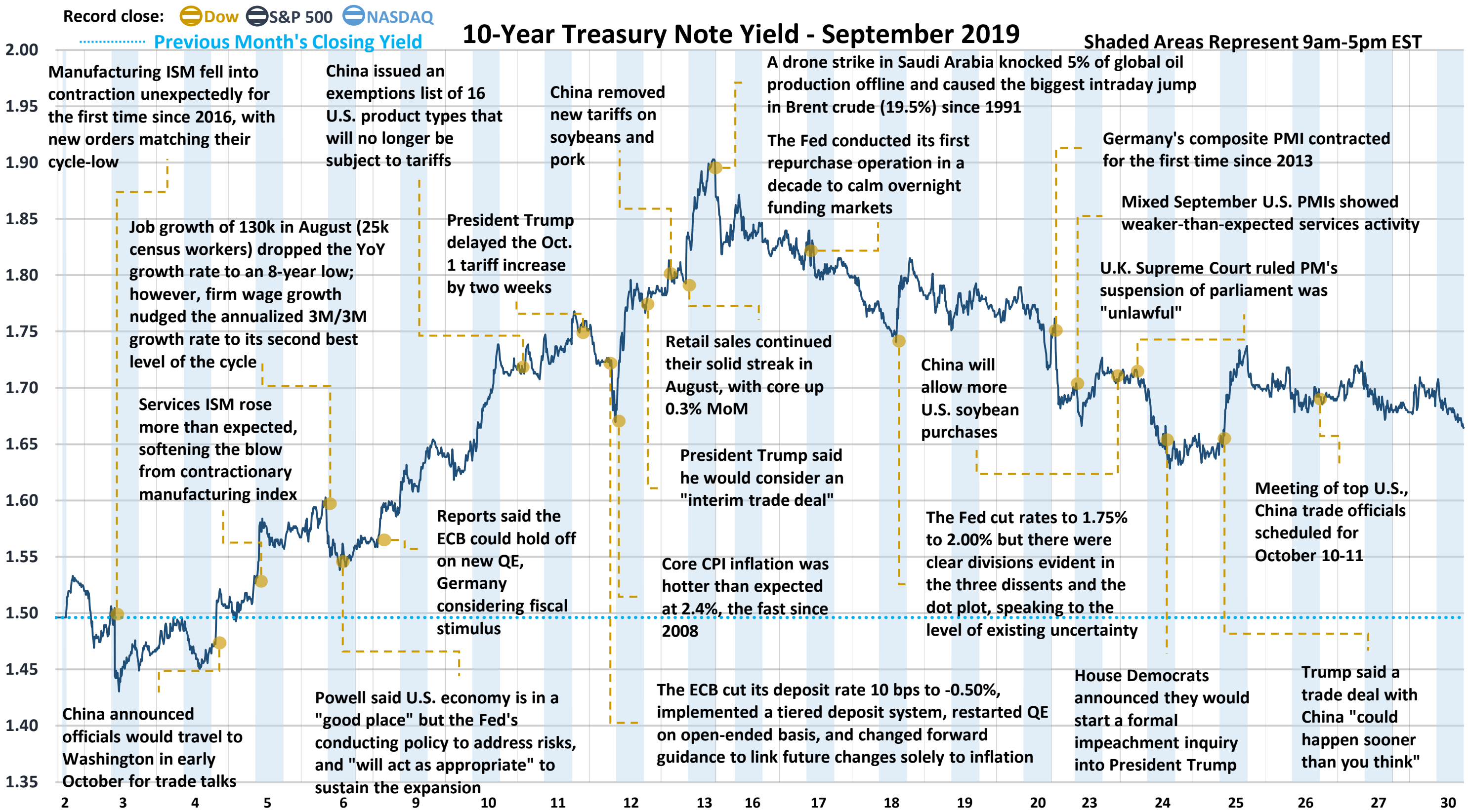
Monthly Review

September 2019

Yields Partially Recovered from August Drop As Trade Hopes Were Countered by Lingering Concern about the Outlook



Yields Partially Recovered from a Sharp August Drop as Hopes for Progress on Trade Were Countered by Continued Worries About the Global Economy

Markets: Following a sharp decline in August, yields surged in the first half of September on positive trade and geopolitical developments, better-than-expected U.S. data, speculation about German fiscal stimulus, and questions about the ECB's conviction for even more extreme monetary stimulus. After closing at its lowest level since the aftermath of Brexit on the first day of the month, the 10-year yield shot 40 basis points higher through the first two weeks, recouping three-quarters of August's 52-basis-point decline. However, a mid-month attack on Saudi Arabia's oil facilities reinvigorated geopolitical concerns, weaker-than-expected data out of the world's largest economies served as reminders of the tenuous outlook, and a formal impeachment inquiry into the president fanned the flames of an increasingly divided U.S. political scene. Ultimately, the 10-year yield added 16.9 basis points and ended at 1.66%, near the middle of its two-month range. Along the way, the ECB overhauled its monetary policy stance and the Fed cut rates but appeared sharply divided about what to do next. The September cut lowered the Fed's target range to 1.75% to 2.00% but elicited three dissents. The Fed also made headlines by restarting its repurchase facility for the first time in a decade to calm stresses in overnight funding markets that pressured overnight rates abnormally higher, raising questions about the adequacy of reserve levels in the financial system. The 2-year yield rose 11.8 basis points as Fed Funds futures pared back expectations for future cuts. Following a similar path as yields, the S&P 500 ended up 1.7% after gaining as much as 2.8% in the middle of the month.

Consumer: Wage growth picked up in August by a couple of measures and unemployment remained low, but hiring was less than expected at 130k and the pace of growth continued to slow. Compared with August 2018, total headcount on nonfarm payrolls grew 1.39% marking the slowest pace in eight years. While initial jobless claims held at strong levels, fewer job openings echoed the signals of slower labor market momentum. The retail sales data remained strong but the official spending data came up short of expectations and both key measures of confidence gave reason for caution.

Private Investment: The business outlook remains shaky as small business confidence dropped more than expected and capital indicators offered mixed messaging. Additionally, the major activity surveys gave no clear direction for the overall economy. Markit's manufacturing PMI topped expectations while the ISM's index contracted for the first time since 2016. The ISM's services index strengthened more than expected but the Markit reading was weak and signaled contracting employment. The housing sector saw better results in August with each of the major activity reports tallying stronger-than-expected monthly gains as mortgage rates continued to decline.

External Trade: Early August trade data indicated less widening in the monthly trade deficit but the broader trade worries remained a headwind for economic activity.

Inflation: Core inflation has shown some signs of firmness, but in a broader context overall pressures appear subdued. The YoY CPI rate moved up to 2.4%, the highest level of the cycle, while the Fed-favorite PCE picked up to 1.8%, still below the 2% target.

Monetary Policy: Monetary policy was a focus in September as both the Fed and ECB provided more accommodation in the face of elevated uncertainties about the health of the global economy. The Fed cut rates for the second time this cycle and while the economic outlook was generally left unchanged, there was ample evidence of a growing division between officials' opinions. Consistent with divergent public comments, there were three dissents to cutting rates and the dot plot showed nearly even splits about what could happen over the remainder of the year. The ECB also surprised markets with comprehensive changes to its policy stance that included cutting rates and introducing tiered deposit pricing, as well as an open-ended restart of its quantitative easing program.

Monthly Review

September 2019

Yields Partially Recovered from August Drop As Trade Hopes Were Countered by Lingering Concern about the Outlook

VINING SPARKS

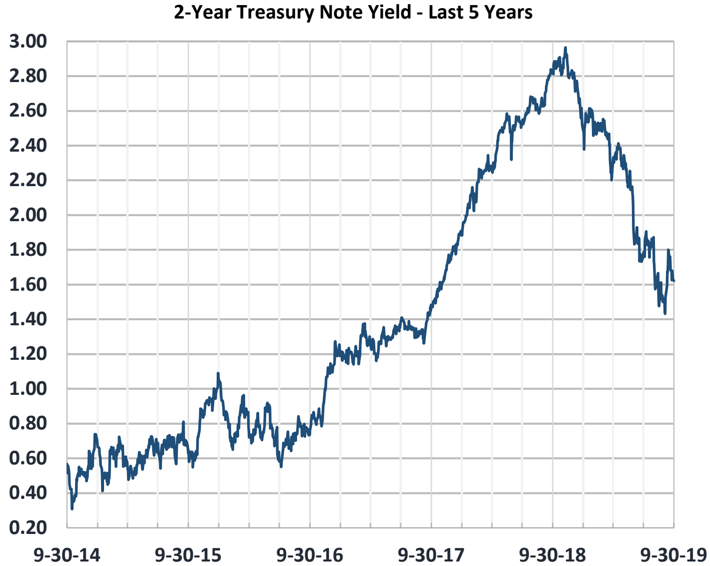
2-Year Treasury Note Yield - September 2019

5-Year Treasury Note Yield - September 2019

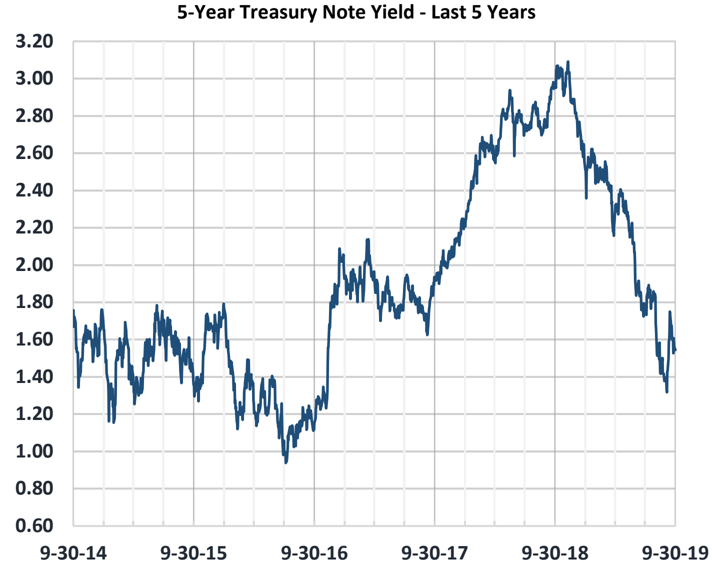
2-Year Treasury Note Yield - Last 12 Months

5-Year Treasury Note Yield - Last 12 Months

2-Year Treasury Note Yield - Last 5 Years



5-Year Treasury Note Yield - Last 5 Years



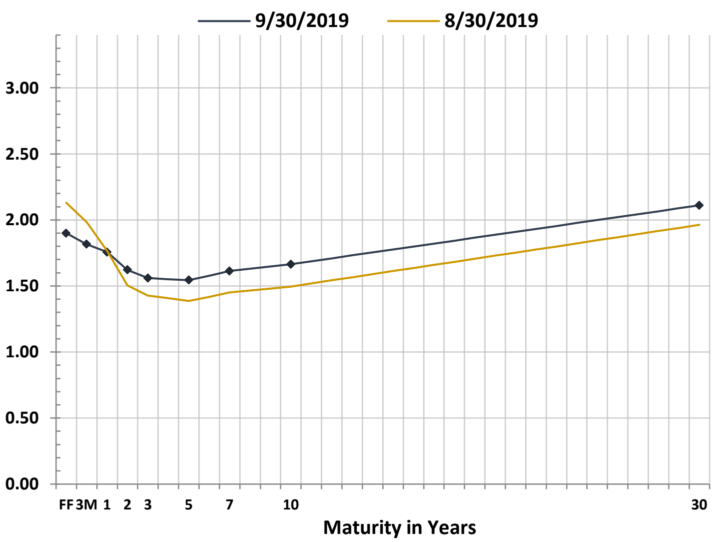
Monthly Review

September 2019

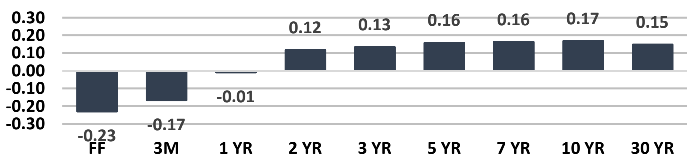
Yields Partially Recovered from August Drop As Trade Hopes Were Countered by Lingering Concern about the Outlook

VINING SPARKS

Treasury Month-Over-Month



Month-Over-Month Change in Treasury Yields



Global Stock Performance

	Value	MTD Change	QTD Change	YTD Change
Dow Jones	26,917	1.95% ↑	1.19% ↑	15.39% ↑
S&P 500	2,977	1.72% ↑	1.19% ↑	18.74% ↑
Nasdaq	7,999	0.46% ↑	-0.09% ↓	20.56% ↑
Stoxx Europe 600	393	3.60% ↑	2.15% ↑	16.44% ↑
China CSI 300	3,815	0.39% ↑	-0.29% ↓	26.70% ↑
Nikkei 225	21,756	5.08% ↑	2.26% ↑	8.70% ↑

Global Sovereign Debt Performance

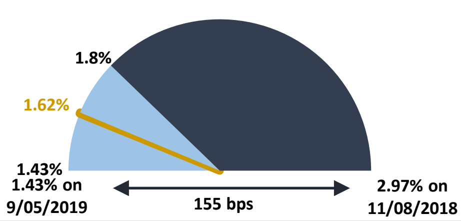
	Yield	MTD Change *(in bps)*	QTD Change *(in bps)*	YTD Change *(in bps)*
U.S. 2-year	1.62%	11.8 ↑	-13.3 ↓	-86.6 ↓
U.S. 5-year	1.54%	15.8 ↑	-22.2 ↓	-96.7 ↓
U.S. 10-year	1.66%	16.9 ↑	-34.1 ↓	-102.0 ↓
German 10-year	-0.57%	12.9 ↑	-24.4 ↓	-81.3 ↓
U.K. 10-year	0.49%	0.9 ↑	-34.5 ↓	-78.9 ↓
French 10-year	-0.27%	12.9 ↑	-26.9 ↓	-98.4 ↓
Italian 10-year	0.82%	-17.6 ↓	-128.0 ↓	-192.0 ↓
Japanese 10-year	-0.21%	5.6 ↑	-5.5 ↓	-21.6 ↓

Commodity Performance

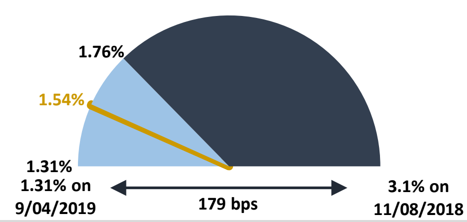
	Value	MTD Change	QTD Change	YTD Change
WTI Crude	$ 54.07	-1.87% ↓	-7.53% ↓	19.07% ↑
U.S. Dollar	99.38	0.47% ↑	3.38% ↑	3.33% ↑
Gold Spot	1,472	-3.15% ↓	4.46% ↑	14.81% ↑
Commodity Index	77.78	1.01% ↑	-2.35% ↓	1.39% ↑

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

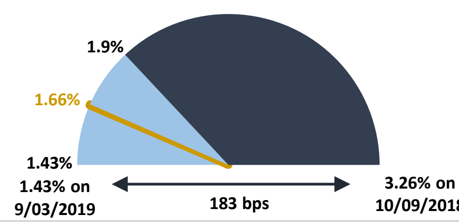
2-Year Treasury



5-Year Treasury



10-Year Treasury



Nonfarm Payrolls
August
130k

Unemployment Rate
August
3.7%
Unchanged

Hiring missed estimates and YoY growth slowed to 1.39%, an eight-year low; wage growth was solid

Existing Home Sales MoM
August
1.3%

Annualized pace was the best in 17 months

New Home Sales MoM
August
7.1%

Rebounded to the third best annualized pace of the cycle

Core Retail Sales
August
0.3%

Consumer Confidence
September
125.1
Down 9.1 pts

Weakness was widespread

ISM Non-Manufacturing
August
56.4
+2.7 pts

ISM Manufacturing
August
49.1
-2.1 pts

Manufacturing contracted for the first time since 2016

Manufacturing Production
August
0.5%

Core Capital Goods Orders
August
-0.2%

Trade Balance
July
-54B
+1.5B

Core PCE YoY
August
1.8%
Up 0.12%