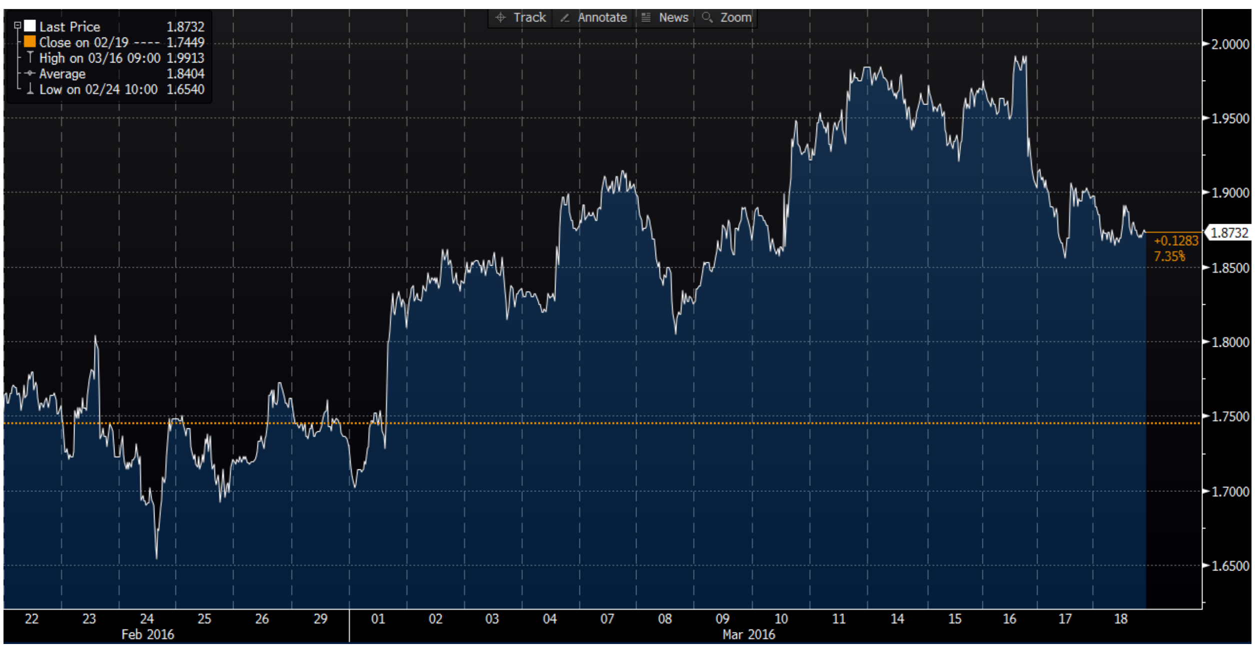
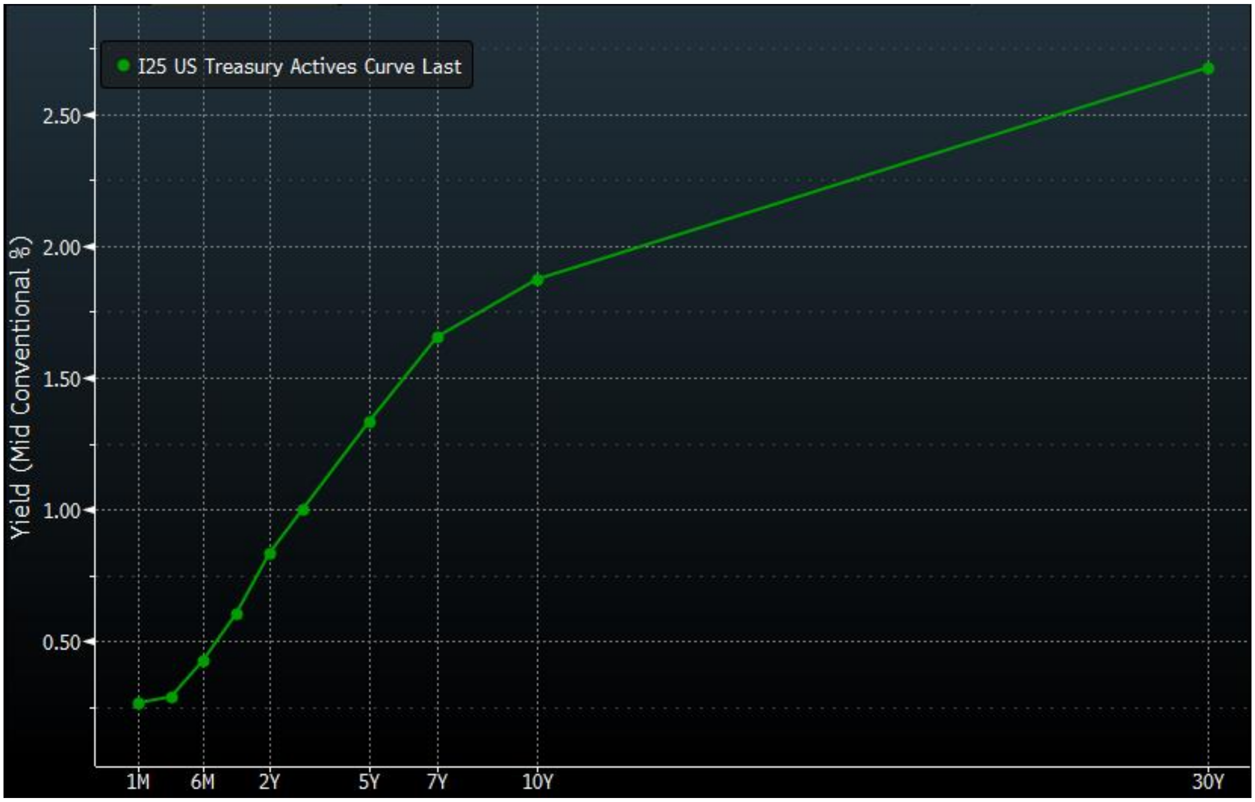
Bond Report

This week, The US Treasury yields fell for the first time in four weeks. On Monday, yields decreased for two main reasons. First, the decline in oil prices increased the demand for safer assets such as government bonds. Secondly, everyone was waiting the outcome from the FED's meeting. Indeed, the U.S demonstrated a robust enough growth and inflation that increased investors' sentiment of a possible rate hike for this week. However, short-term Treasury yields, which are the most sensitive in FED's funds rate changes continued to climb as investors were selling their treasury notes ahead of the FED meeting. On Wednesday, Treasury yields fell after the FED said that it will left interest rates unchanged. Although this was not such a bring surprise, the FED also announced that it will cut the number of projected interest rate increase in half to two interest rate hikes for this year, compared to four in December. This means that the FED has revised downward its inflation projection. This sharp revision was not expected and led Treasury yields to fell accordingly. The two-year Treasury note fell 7.7 bps on Wednesday to 0.87%, its lowest level in two weeks. On Thursday, the yields continued to fell after following the FED's meeting which fuelled demand for government Treasury securities. This two consecutive days of decline represents the largest drop in six months. Thursday, positive economic data did not stop this rally in Treasuries since the two projected interest hikes were viewed by investors as a long-term worry from the FED. The bond market interpreted the FED's moves as an upcoming potential slowdown for the global economy, increasing the demand for safe assets such as government bonds. Over the week, the yield on the benchmark 10-year Treasury note fell 10 bps to 1.87% compare to 1.97 at the beginning of the week. The 2-year Treasury yield fell 13 bps to 0.84% compare to 0.97% at the beginning of the week. Among longer maturities, the yield on the 30-year Treasury bond fell 6 bps to 2.68%, from 2.74% earlier this week.





What's next and key earnings

Several events are to be closely watch this week. First, the existing home sales report will be released. Home sales have been robust, however they have not been accelerating. For February, we are expecting to see home sales holding at a 5 million unit annual rate. On Tuesday, the PMI manufacturing index flash will be released. Surprisingly, the factory sector should be solid after a long period of contraction. We are expecting to see a consensus at 52.4 for March compare to a weak 51.0 in February. This is a clear rebound from February where growth in new orders was at its 3 years and a half low and both exports and backlogs were weak as well. On Wednesday, the new home sales report will be released. Like existing home sales, new homes sales have not been accelerating and are having difficulty to stay above 500,000 annualized. For February, we are expecting to see sales at 510,000 annualized rate, a positive increase from the low 494,000 for January. On Thursday, the durable goods orders report will be released. Despite gains made in January, we are not expected to see improvement for the month of February. Core capital goods order were robust in January but should be weaker for February with a consensus of -3%. Friday, the fourth-quarter GDP will be released. It is expected to remain unchanged from the last estimates with an increase of 1%. This report is greatly expected by investors since a gain in Q4 could have an impact on consumer spending.