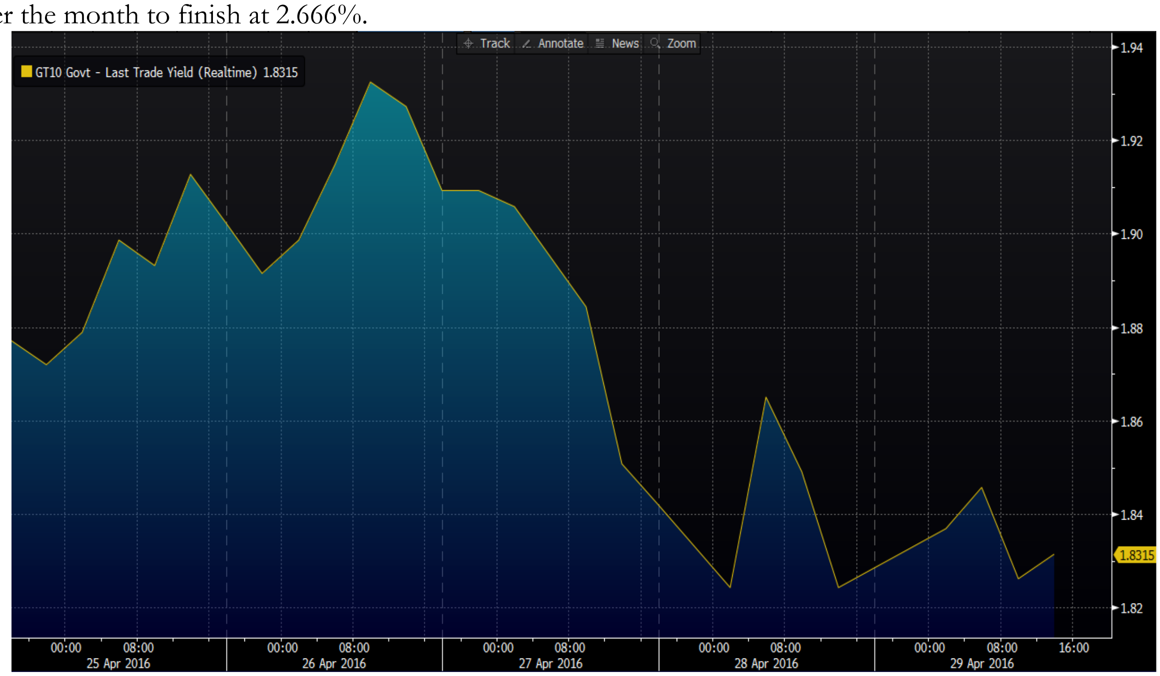
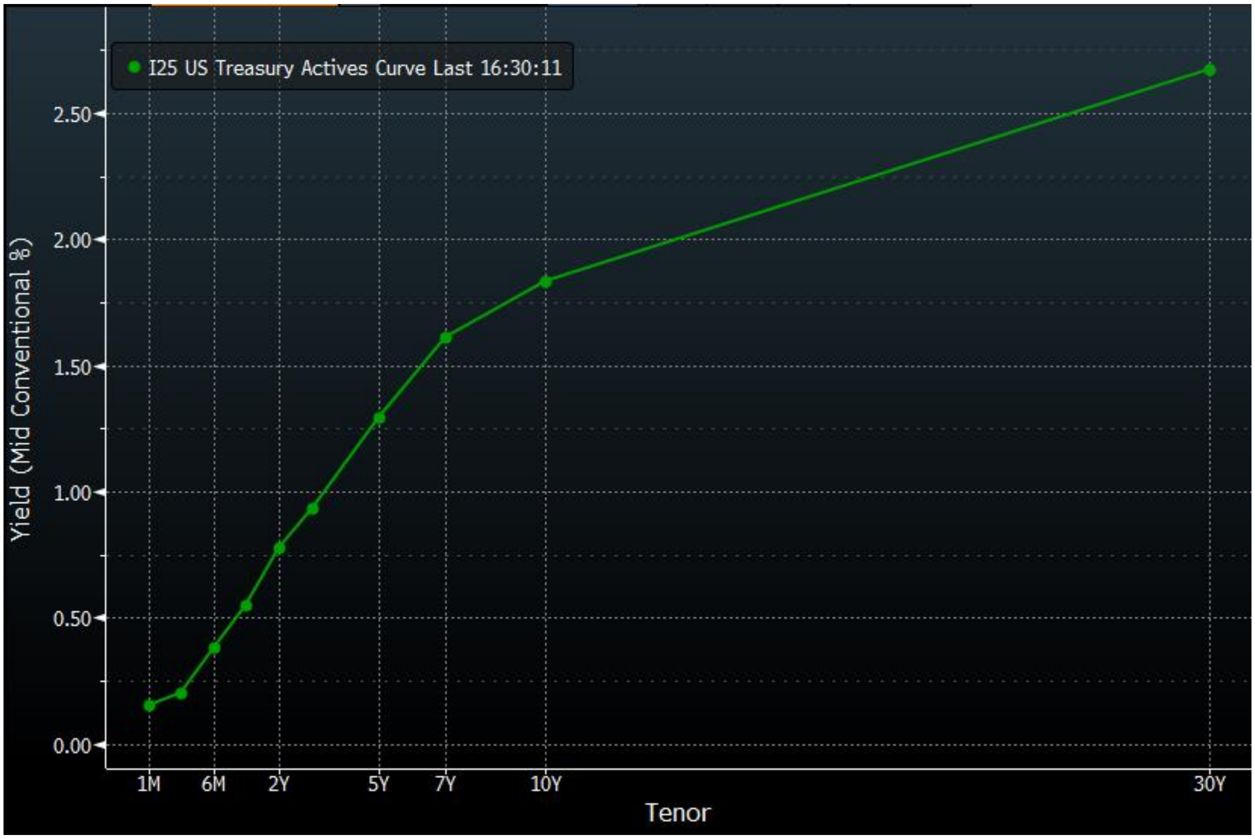
Bond Report

This week, the U.S. Treasury yields plummeted after their highest climb in a month early this week. The Federal Reserve left interest rates unchanged and followed a passive wait-and-see approach of a future interest rate hike. This points to the Fed's fears about the weakening in economic growth of the U.S. On Monday, Treasury yields pushed higher in anticipation for the Federal Reserve meeting beginning on Tuesday. A 23% probability of a rate hike for June marks the Fed's expectations. The Treasury yield climb still continues to reflect a desire for riskier assets, such as equities and oil, by investors despite the Fed's dovish stance. Also, with the stabilization of the equity market and rebound in oil futures, pressure has been taken off bond investing leading Treasury yields to rise. Continuing Monday's trend Treasury yields rose to their highest level in over a month, on Tuesday. Investors continue to brace for Federal Reserve monetary-policy announcement on Wednesday. The yearning for riskier assets has led investors to sell assets perceived as safe, including bonds, driving Treasury prices down and yields higher. Short-term Treasury yields will be dependent on any changes to the Fed's rate. While long-term Treasury yields will not necessarily be affected as they typically move based on growth and inflation. On Wednesday, the upward trend in Treasury yields scene early in week broke as the Fed took a wait-and-see approach of any future interest rate hikes. Demand for assets perceived as safe were driven by selling pressures in the equity market pushing Treasury yields down. A selloff of Apple Inc. (NASDAQ: AAPL) was the leading driver. The Fed also acknowledged that there is weakening in the economy's growth. With the Fed's modest rate hike approach a rate hike for April was ruled out. On Thursday, the downward trend from the previous day continued to push Treasury yields to one-week lows. Pessimistic news that the first quarter GDP only rose 0.5%, was below analyst estimates, thus being a significant driver in Treasury yields. The market's expectations for the Fed for a June rate hike also decreased from 23% to 19%. On Friday, Treasury yields fell for the third straight session. As a result, Treasury yields reached their lowest levels since April 19. Inflation remained in the market's expectations leading to Treasury selling. The main focus being on how global inflation data will affect future Fed policy. Thus, growth in crude oil futures drove Treasury yields up slightly as oil prices affect long-term inflation. Overall, the two-year Treasury rose to 0.865%, and gained 4.1bps over the month to finish at 0.774%. The 10-year Treasury yield also climbed to reach 1.931% on Tuesday, and gained 3.6bps over the month to finish at 1.821%. While the 30-year Treasury yield reached 2.760% on Tuesday, and rose 4.6bps over the month to finish at 2.666%.





What's next and key earnings

On Monday, in March, orders for durable goods increased by 0.8%. Also a gauge for pending home sales rose 1.4%, in March, which is its second monthly increase. While a rise again in March to a 10-month high was scene in an index that tracks home contract signings, as low interest rates encourage home buying. This optimism will encourage a solid spring season for the housing market. On Tuesday, consumer confidence report for April fell more than 2 points to 94.2. Although, an improvement in jobs that are hard to get was sizable and will encourage a solid employment report. On Wednesday, a portion of the international trade in goods report for March showed that trade activity has declined. Trade is down to $56.9 billion, from February's $62.9 billion. Exports fell 1.7% parallel with declines for industrial supplies, autos, and foods. This weakening in cross-border activity is having a negative effect on the global economy. The EIA petroleum status report show oil inventories continue to rise. Oil inventories reached a new record at 540.6 million barrels last week. Gasoline went up 1.6 million barrels, while distillates are down 1.7 million. On Thursday, the Fed's preferred PCE index, a measure of inflation, rose at a negligible 0.3% annual rate over Q1. While core inflation, which excludes food and energy, rose at a 2.1% rate, above the Fed's 2% target. Continued strength in the labor market was reflected in the number of Americans who have applied for unemployment benefits remain around a four decade low. On Friday, personal income and outlays report showed spending is weak but income is solid. Spending is partially being pulled down by poor car sales this year. While wages and salaries rose at a solid rate with an increase in savings. This increase in consumer income is a positive for the economic outlook. Consumer sentiment fell to 89.0 in the end April from 89.7 earlier in the month. This decline was driven by developing uncertainty over future job and income prospects.