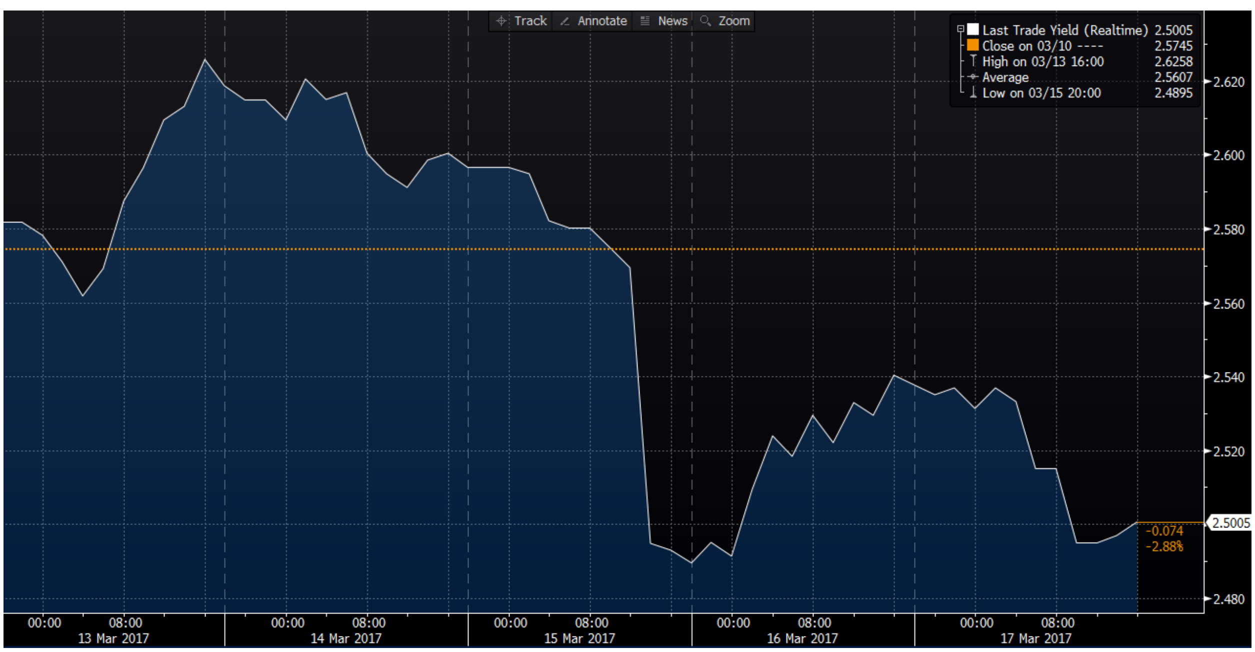
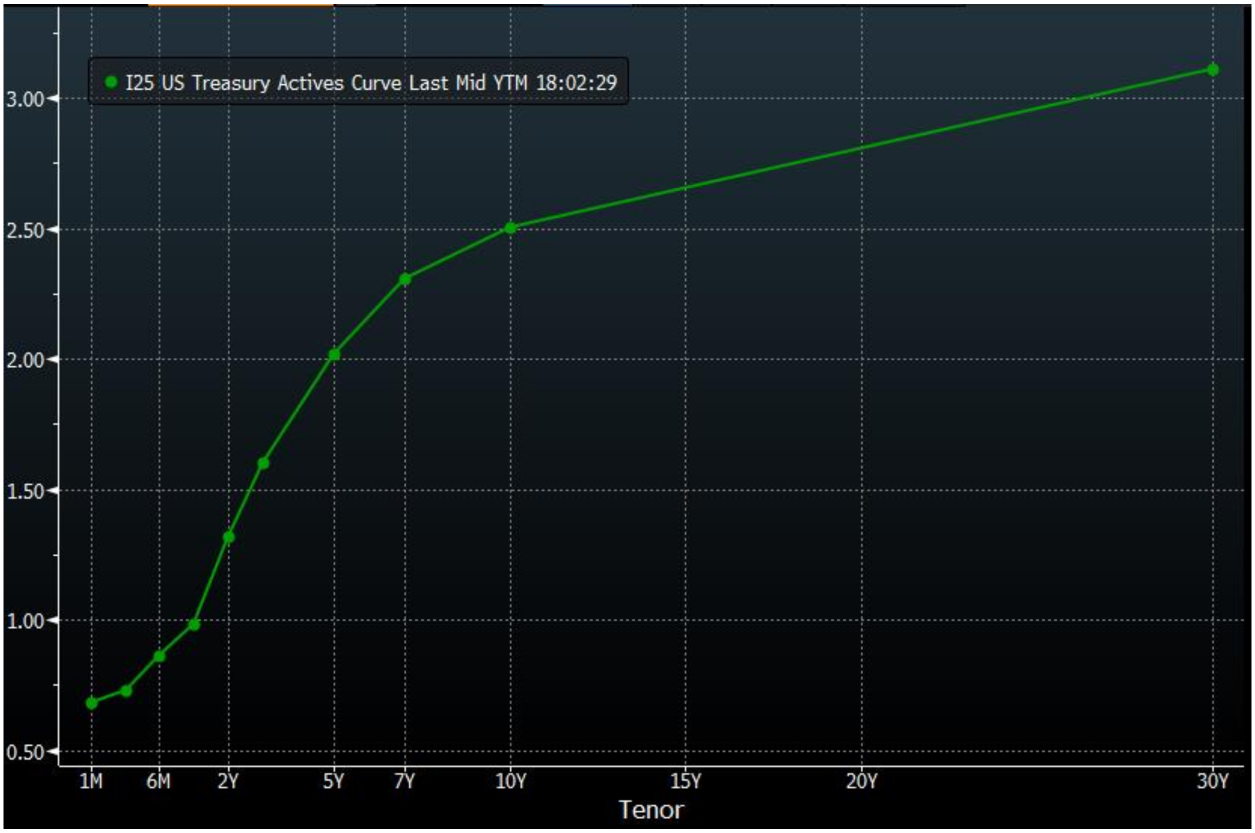
Bond Report

This past week, the main concern of the bond market was pricing Wednesday's rate hike as well as reacting to unmet, aggressive expectations. On Monday, 2 year yields were driven to their highs since 2009, rising 1.7 basis points. The trend continued upwards for both the 10 and 30 year Treasury notes, both reaching highs since 2014 and 2015 respectively. The trend has continued upward since last week, pricing the investing public's certainty of an interest rate hike on Wednesday. Tuesday, the first day of the FOMC meeting, led the yields of Treasury Notes to start to converge together in spread, in light of the following day's decision. OPEC also released data indicating that Saudi Arabia had begun producing over 10 million barrels a day again in February, lowering oil futures. This spiked demand in the Treasury market and gave more insight to the spread adjustment between the 2, 10 and 30 year notes. The 2 year note was the only yield that rose, a total of 2.2 basis points, which is expected from the shortest maturity notes prior to an expected rate hike. The 10 and 30 year yields fell 1.5 and 2.2 basis points respectively. Wednesday, the FOMC meeting met investor expectations of a rate hike of 25 basis points on the Federal Funds rate. The most important takeaway from the meetings closure was Yellen's confirmation of a 3 interest hike year, which investors were slightly thrown off from because a more hawkish approach was expected. This over expectation was seen clearly with a 6.9 basis point drop in the 2 year note, and most notably, a 9.4 basis point drop in the 10 year Treasury note. This was just two days after reaching a high of 8 years. The 30 year note also took a significant drop of 7.2 basis points. On Thursday, yields rebounded upwards normalizing the reaction from the day prior. Yields rose only a couple basis points each, still showing the effect of the interest rate hike on the overall confidence in the market and economic conditions. Friday, rates fell back to where they found themselves on the end of Wednesday's trading day. The market is still trying to price the unmet expectations of a more aggressive monetary approach by the fed. Overall, during the week, the 2 year Treasury note yield closed 2.4 basis points lower from the beginning of the week at 1.316%. The 10 year yield finished the week 8.1 basis points down, closing at 2.506%. The 30 year note yield closed at 3.111%, a total of 4.9 basis points down.





What's next and key events

Next week, we can expect to see prices reflect last week's news as the market closed with significant volatility on Friday. Some key events to watch include the release of adjustments to the Current Account on Tuesday, which is expected to rise from \$113 Billion to \$128.1 Billion. The significance stems from macroeconomic outlook and further interest rate hikes. While the Fed did clarify on a 3 hike year, inflation raises and expected inflation from the Trump Administration and its policies could affect that choice. Janet Yellen is also presenting a Keynote speech in front of the Federal Reserve Community Development Research Conference on Thursday, which we can expect further elaboration on her past decision and gain more insight on her perspective future expectations, beyond those given last week. These key events should not create much additional volatility in the market. Other notable events include Bloomberg's weekly CCI which tracks confidence of consumers, which could signify how the rate hike was taken from uncertainty to implementation from last week prior.