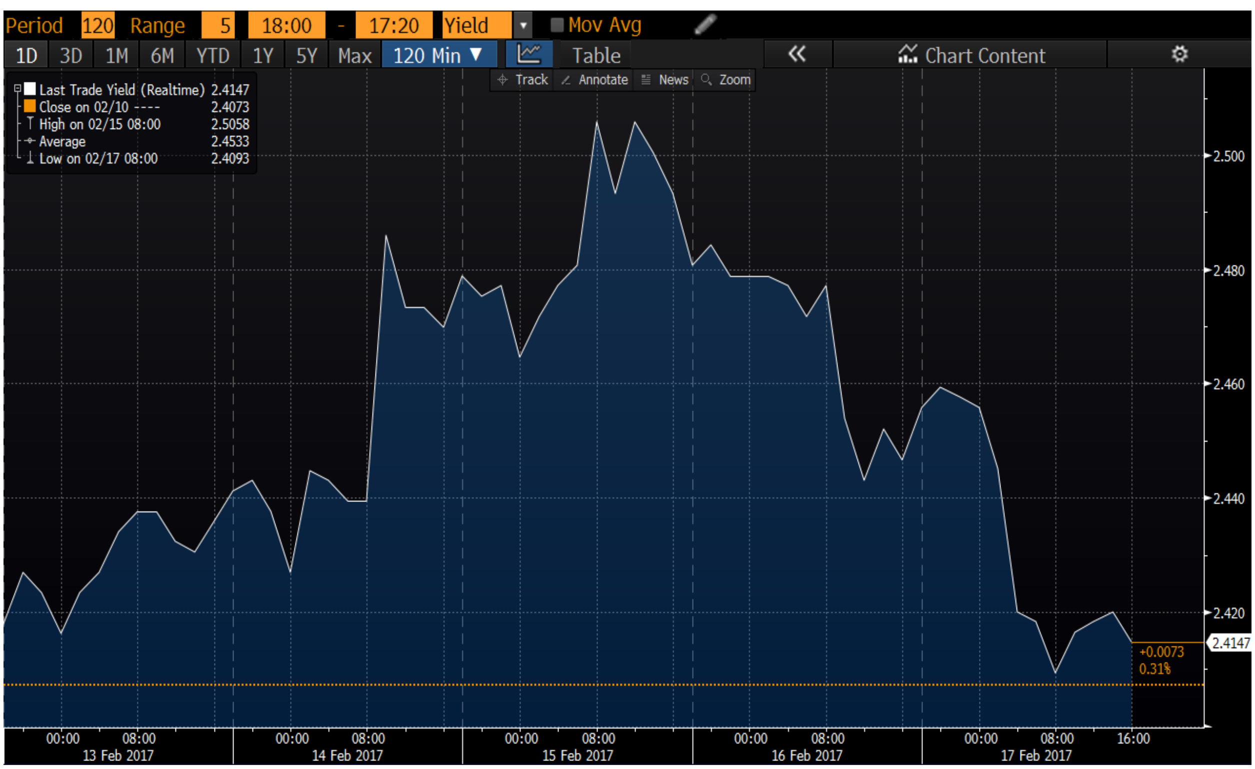
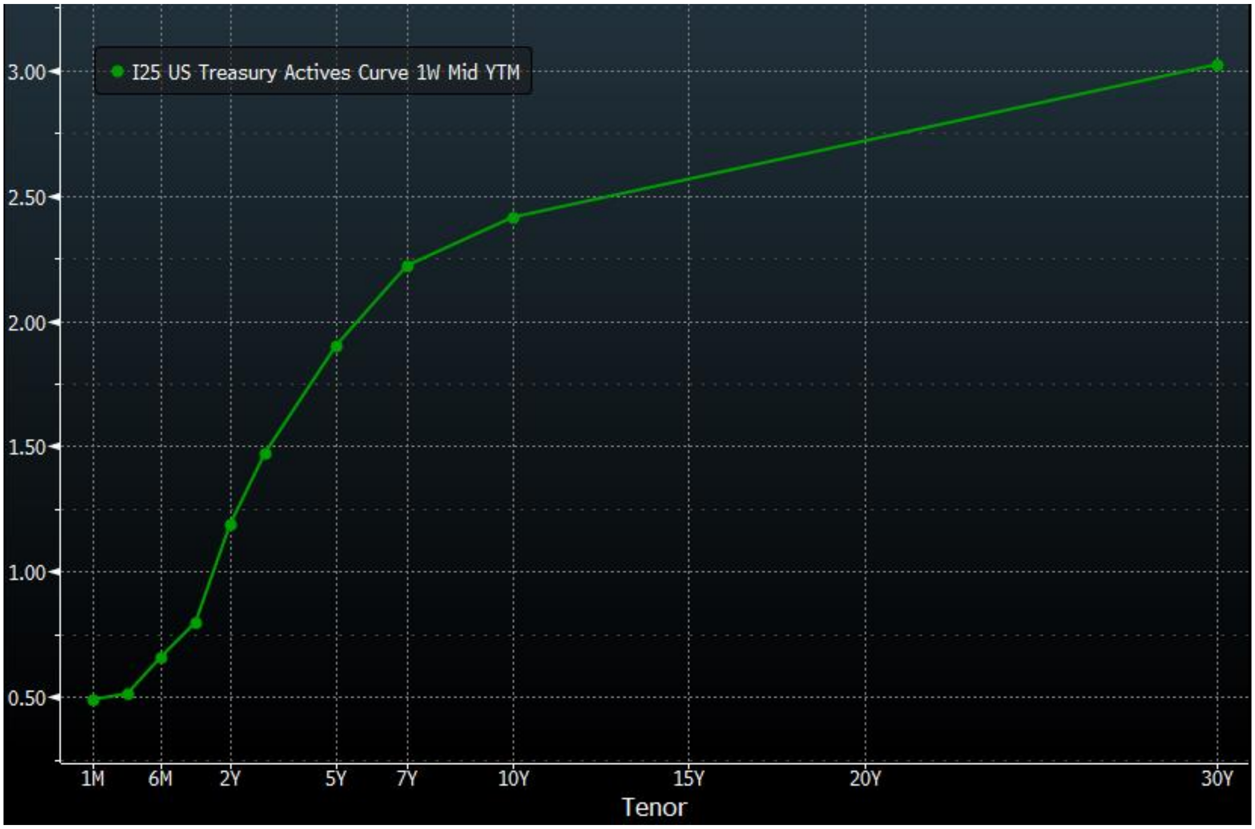
Bond Report

This past week, the main concern of the bond market was related to Janet Yellen's semiannual testimony regarding the Fed's monetary policy that was to take place on Tuesday. On Monday, yields rose higher, as the market deemed likely that the chairman of the Fed would not close the door to a Fed-Funds rate hike as soon as March. On Tuesday, two events contributed to a fourth straight day of Treasury yields increase. First, during her testimony, Janet Yellen actually confirmed that a March hike was still considered, surprising most of the market that estimated that a March increase was only 20% likely. As a matter of fact, she stated that the negative impact of waiting too long to raise interest rates was greater than those of not waiting long enough. Then, official data regarding producer-price growth showed that, over the last month, it had been accelerating at its fastest pace in almost 5 years. Yields being directly correlated to inflation, this information contributed to make them increase. On Wednesday, the main event was the release of the Consumer-Price Index data. It showed that, since January 2016, inflation has accelerated to as high as 2.5%, faster than expectations, and most importantly faster than the Fed's inflation target of 2%. This sent yields higher for a fifth straight day, and the 10-year yield went back above 2.5%, for the first time in almost three weeks. Also, Patrick Harker, chairman of Philadelphia Fed, confirmed the expectations of the market by stating that three interest rate hikes in 2017 were likely as long as the economy remains stable through the year. On the last two days of the weeks, U.S. Treasury yields were sent lower as the equity market retreated on both Thursday and Friday after weeks of records. Investors invested in assets considered as safe havens like Treasuries after this bullish run. In the same time, yields also dropped in major European markets as worries emerged regarding the growing influential power of populist parties in Eurozone member countries. Overall this week, while shorter term Treasury yields remained rather constant (2-year yield up by only 0.1 basis point), long-term Treasury yields advanced, as both 10-year and 30-year yields advanced by 1.6 basis point and 1.9 basis point respectively. These have shown increases in four of the past five weeks.





What's next and key events

Next week, as Monday is President's day, the first even to look for will take place on Wednesday, as Tuesday will be comprised mainly of speeches of local Fed chairmen like Patrick Harker. On that day, data about MBA (Mortgage Bankers' Association) Mortgage Application will be released. This indicator not only gives the general state of the housing market, but also gives indications about households' confidence. Last week, MBA applications had fallen by 3.7%. On Thursday, Initial Jobless claims numbers will be under scrutiny, as this indicator been below 240,000 new claims for the past two weeks, being the sign of a strengthening labor market. Current estimates for this week are 244,000, a 5,000 increase from last week. Finally, on Friday, the final Consumer Sentiment Index will be released, currently estimated at 95.7, almost 3 percentage points lower than a month ago, potentially due to the end of the post-election surge. However, this indicator is hard to read as it is highly polarized, Republicans and Democrats having different views on the economy.