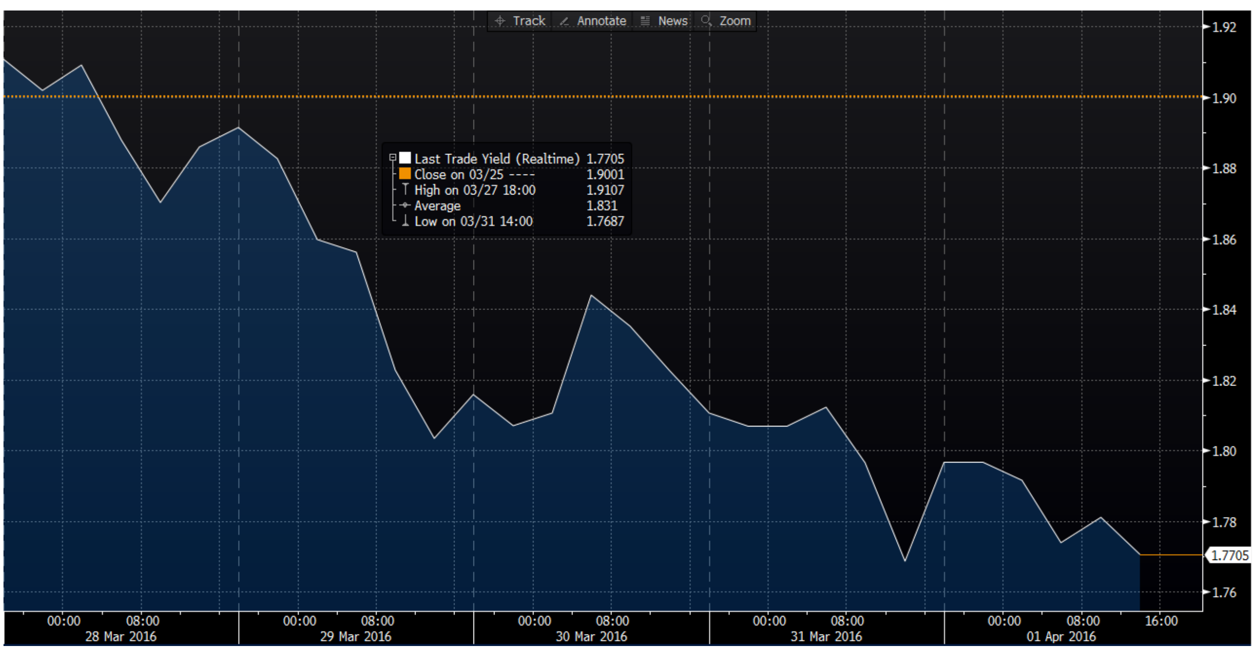
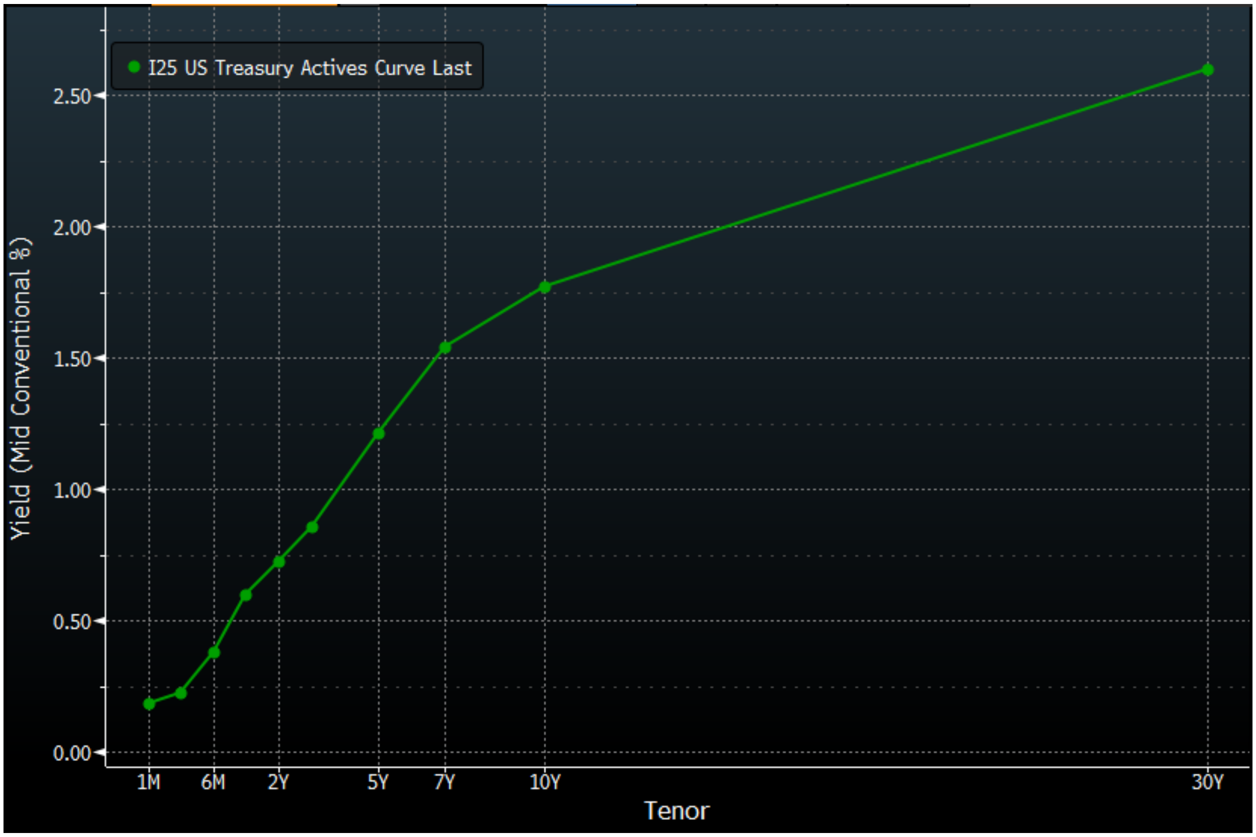
Bond Report

This week, The US Treasury yields have reported their biggest weekly declines in two months due to cautious approach to rate increases by the Federal Reserve early in the week. As of now there the expectations for an April rate hike are out of the question; however, the market is still expecting a hike by the end of the year. On Monday, treasury yields decreased as the market has struggled to deconstruct the Fed's monetary-policy intentions as dovish or hawkish. While other investors have implied for normalizing policy. Federal Reserve Chairwomen Janet Yellen, on Tuesday, spoke about her opinion for favoring a more dovish, or cautious approach to interest-rate hikes, than expected. As a result two-year Treasury dropped to a one-month low congruent with yields across all maturities, while investors bet on the idea that the Fed will not likely raise rates more than one time this year. Furthermore, as Treasury prices rise the benchmarks for mortgages and other consumer interest rates known as long-term yields fell. Short- term US Treasury yields continue to decline on Wednesday, as bond investors continue to make adjustments of fewer interest hikes to their projections. Chicago Fed President Charles Evans defended Yellen's overly dovish outlook that global risks are too high. On the other hand, long-term Treasury yields rose from Tuesday's one-month low as investors sold safe assets such as government debt due to a rally in risk assets, mostly equities and oil. This spread between long and short- term Treasury, known as steepening yield curve, as a result common with rate-hike expectations fell. Similar to the earlier half of the week, on Thursday, the downward trend in short-term Treasury yields continued due to the dovish comments. In addition, long-term yields took a down turn as prices rose. On Friday, the official jobs report was released which investors have been waiting all week on. The US unemployment rate rose from 5% to 4.9%, the highest level in two years in addition to the US creating 215,000 new jobs this March. In response short-term yields rose due to the positive jobs report and signs for improvement in the manufacturing sector; whereas, Long-term US treasury yields had their largest weekly decline in two months still due to Yellen's dovish comments. Moreover, the upbeat job report will help reassure the FED that the economy is healthy and growing; however, for the two year yield the larger rise indicates the Fed's dovish stance as valid. Overall, the two-year Treasury fell by 7.3bps to 0.796% on Tuesday from 0.869% the previous day ending the week with a 10.8bps drop and finishing at 0.764%. The 10-year treasury yield also declined 10.8bps over the week and finished at 1.793%. Among longer maturities, the 30year treasury yield finished the week at a decline of 7bps and finished at 2.603%. Treasury yields had their largest quarterly drop in nearly four years, as Treasury prices climbed during 2016's first quarter.





What’s next and key earnings

On Monday March 28th, February’s import and exports analysis was released showing rises in both, with the largest driver being exports of capital goods, while industrial supplies went down with oil based price weakness. Also high jump in consumer goods signals a rising business expectations in the US. Consumer confidence index for March holds strong at 96.2 despite lack of wage gains and the current political conditions. Personal income and outlays have shown conservative spending by consumers with spending on non-durable goods down sharply on lower fuel prices, while durable goods and services did not change. As a result the estimates for GDP will not be rising following the personal spending report for the first quarter. On Wednesday, EIA Petroleum report was released showing a record high of 534.8miliion barrels in the week of March 25th. Meanwhile, product inventories declined while still remaining above average with gasoline and distillates down. The 4-week average of total products supplied continues to rise 2.2% higher than last year, a slower rate than the usual rise of 5% year-on-year, caused by the decrease in distillates supply. As for jobless claims they are at all-time lows; however, some improvements to this trend are being seen with jobless claim rises in the latest weeks. Motor vehicle sales have historically been a very strong uptrend to cushion March’s weakness; however, vehicles sales slowed very sharply this March. Although, this decline in vehicle sales cannot be seen as a predicting indicator for the outlook for vehicle sales as they historically been strong and consistent. On Friday, consumer sentiment index for the month of March came to be 91.0 and on the rise; although, a slight drop from the past two months. Lastly, construction spending report for the month of February looks very strong.