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THE RISK TRAIN RUMBLES ON

We hate to say it but another week passes and the same recurring theme continues...Equities higher, Bonds higher, Dollar and Oil lower. This week rally in both the equities and the bonds was pretty impressive. The bonds really took a boost from the dismal employment report which missed by nearly 50k, coming in at +138k expecting +185k.

Full time jobs fell by 367k, largest drop in 3 years. Bonds took this as a go ahead to pound yields and they didn't disappoint as the long end fell by 11 basis points while the 5yr posted a nice 7 basis point move. We can certainly smell a few of the early positions that have taken place in front of the FED meeting next week. The CME Fed watch tool lists the probability of a 25 basis point hike at 96%. We don't think the FED has ever disappointed when expectations were this high, could they disappoint the market? Well maybe but the odds are in favor of them continuing with the rate hike.

We can only imagine where yields, yield curves and equities will be if they do not follow through with the markets anticipation. We can say that if you are of the camp that isn't quite convinced that they will do it, then there are certainly some asymmetrical Eurodollar option plays for you. We tend to think that the rate hike is more about adding to the IOER reserves for the banks than it is about an overheating economy. We have written in our past weeks updates about this theme so revisit the archives if you need to.

Now if the FED does not go ahead, we would think the equities will fall a bit based upon over thinking the FED's thought process, which would go along the lines that the economy is not producing enough and the data is not conducive enough to a rate hike. So some equity players may take that as a sign of a slow down and more weakness to come.

However, as has been the M-O of the past, all and any dips or down turns are promptly bought buy (pun), well Everyone! Bond yields would most likely plummet with the 3yr/7yr sector stealing most of the gains in a bull steepener play as the 10yr lags behind.

Alas, time will tell and we think as we stated many times before, the **FED needs to increase IOER**, so it will hike this meeting. Now our next statement may be a bit profound but we are willing to go out on a limb and say that **this may be the last rate hike any of us will ever see for a very long time**. We think the FED is merely paying lip service to

the market and coercing them into thinking that its real goal is to thwart speculation, which it most certainly is not. Remember who the Central Banks owners are...What we think is going to transpire is that real rates will have to continue to stay in negative territory because **both global financial conditions are waning and more importantly geopolitical things are well into flashing red territory.**

Considering the FEDs dot plot which shows the median Fed Funds around 3% by 2019, we are truly stepping out. We have the odds with us though as the FED and its 700+ PHDs are **terrible at predicting anything.**

So call us crazy, but we feel **we will see 0% before we see 2%** and for all those that think otherwise, state your case, because our case is simple. The growth is pure fabrication on the heels of stolen future demand pulled forward and debt can only be hidden for so long. If the central banks don't screw things up, rest assure the governments will.

Money buys a lot of time, buys a lot of influence, but it rarely stays in one place for very long and considering the over concentration at the upper echelons, we are quite certain that once again stability will lead to instability. If you don't like what we think, just listen to some of the most respected investors out there say, like Dalio and Singer, they have been pretty vocal lately.

Anyway that's our thought process and that call is a long way forward in time so let's get to some charts and press deeper into the current look of things. Let's start off with the chart of the US 2s10 yield curve. This has been a one way trade for about 7 months now and we are nearing 80 basis points and a plethora of support, if the FED disappoints, well all you knife catchers just might be aptly rewarded:



Next up we have the US 10yr yield chart the breakdown below 2.3% is pretty telling and we can't help but think that the target is 1.91% again:



The US long end 30yr yield chart blew past 2.83% support and is now targeting the prior breakout at 2.78%



When we look at the SP500 and US 30yr combined chart we can see the prior double highs have now been easily broken and now we continue up the trend channel path, question is and one that the Talking Heads looked to answer, "Well how did I get here?" (Central Banks)



This next chart breaks the SP500 and US down separately and as you can see since the election which way things have gone, we would be doing you all a disservice if we didn't suggest that ultimately a little mean reversion may be in order:



When we tighten the equity scope and focus on the all coveted FANGs we can see that since the lows in Feb 2016 these guys have run up some 70%! No bubble here just more and more debt for equity swaps on the heels of central bank conversion:



Hey not to be overdone overseas the old mighty Nikkei is making new highs as well, it took them long enough and maybe we should just call them the little engine that could! We hate to say it but maybe Peter Brandt could lend some insight technically if and when this thing breaks 21k, but it looks to us as a massive head and shoulders, target 39k?:



Ok that is all folks, we leave you as usual with our weekly settles of the things we like to follow Nasdaq is still the traditional king while crude and the dollar no longer negatively correlated falling in sync now! But hey don't forget our crypto Bitcoin! Cheers!

2-Jun		Weekly	Weekly	YTD
Instrument	Price/Yield	Net Change	% Change	Change
US 30yr Govt	2.81%	11 bp	3.7%	7.9%
US 10yr Govt	2.16%	9 bp	4.0%	11.3%
US 5yr Govt	1.72%	7 bp	4.0%	10.7%
SEP Bond	154-27	2'07	1.4%	4.7%
SEP Ten Yr	126-20+	0'20+	0.6%	2.6%
SEP Five Yr	118-157	0'12+	0.3%	1.7%
JUN SP500	2437.75	24.00	1.0%	9.0%
JUN DOW	21203	137.00	0.7%	7.5%
JUN Nasdaq	5886	93.75	1.6%	21.0%
JUN Nikkei	20160	445.00	2.3%	5.9%
JUN Dax	12817	224.00	1.8%	11.8%
Shanghai Comp	3105.54	(4.52)	-0.1%	0.1%
JUL WTI Crude	\$47.66	(2.14)	-4.3%	-16.2%
AUG Gold	\$1,280.20	8.80	0.7%	10.4%
JUL Silver	\$17.53	0.21	1.2%	9.2%
JUN Dollar Index	\$96.67	(0.69)	-0.7%	-5.5%
JUN EURO	112.86	0.96	0.9%	6.7%
JUN YEN	90.570	0.70	0.8%	5.3%
Bitcoin (BTC)	\$2,474.40	\$187.59	8.2%	159.5%

Finally, we will decidedly end our notes with our reaffirmation of the growing need for alternative strategies. We would like to think that our alternative view on markets is consistent with our preference for alternative risk and alpha driven strategies. Alternatives offer the investor a unique opportunity at non correlated returns and overall risk diversification. We believe combining traditional strategies with an alternative solution gives an investor a well-rounded approach to managing their long term portfolio. With the growing concentration of risk involved in passive index funds, with newly created artificial intelligence led investing and overall market illiquidity in times of market stress, alternatives can offset some of these risks.

It is our goal to keep you abreast of all the growing market risks as well as keep you aligned with potential alternative strategies to combat such risks. We hope you stay the course with us, ask more questions and become accustomed to looking at the markets from the same scope we do. Feel free to point out any inconsistencies, any questions that relate to the topics we talk about or even suggest certain markets that you may want more color upon.

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