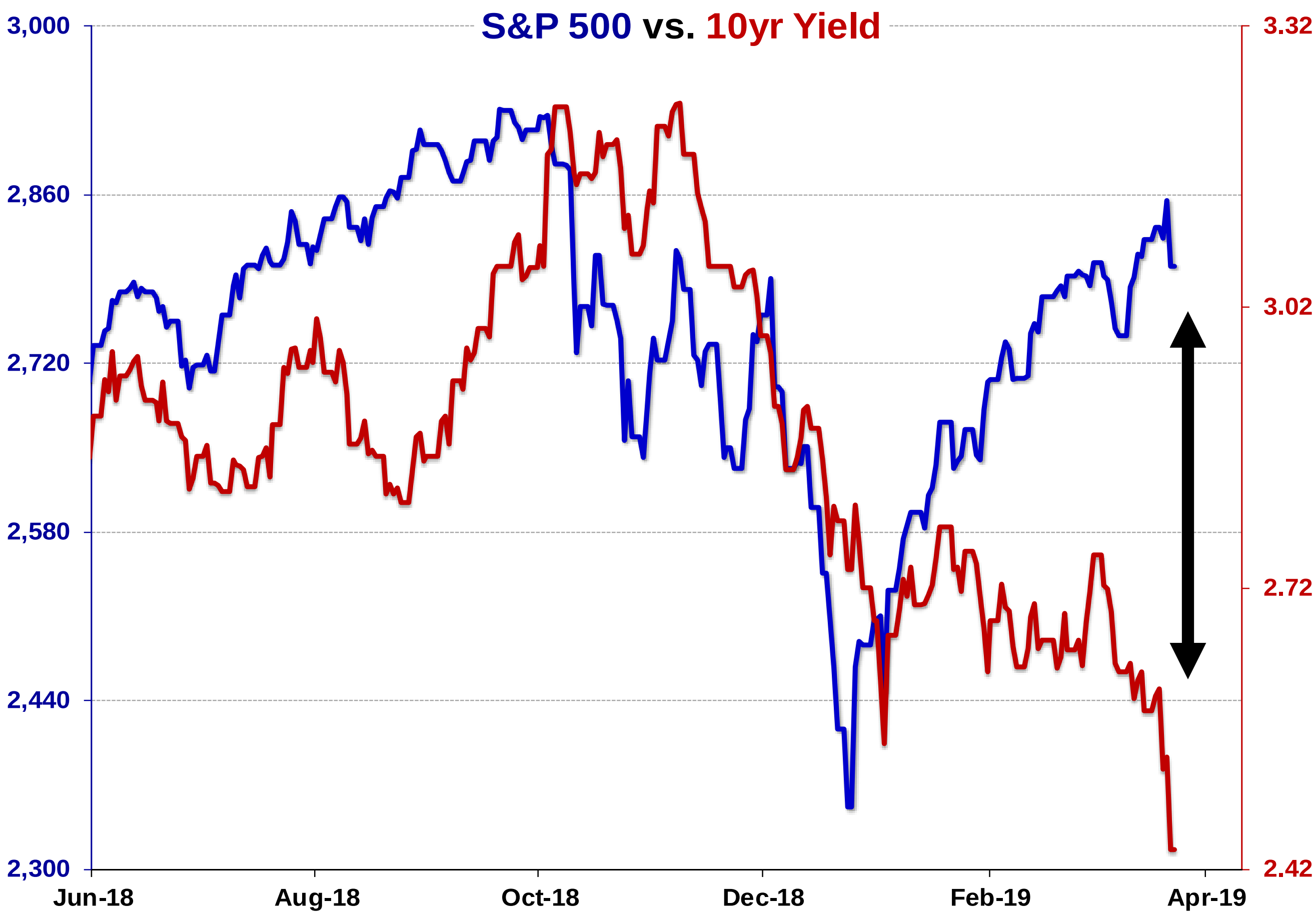
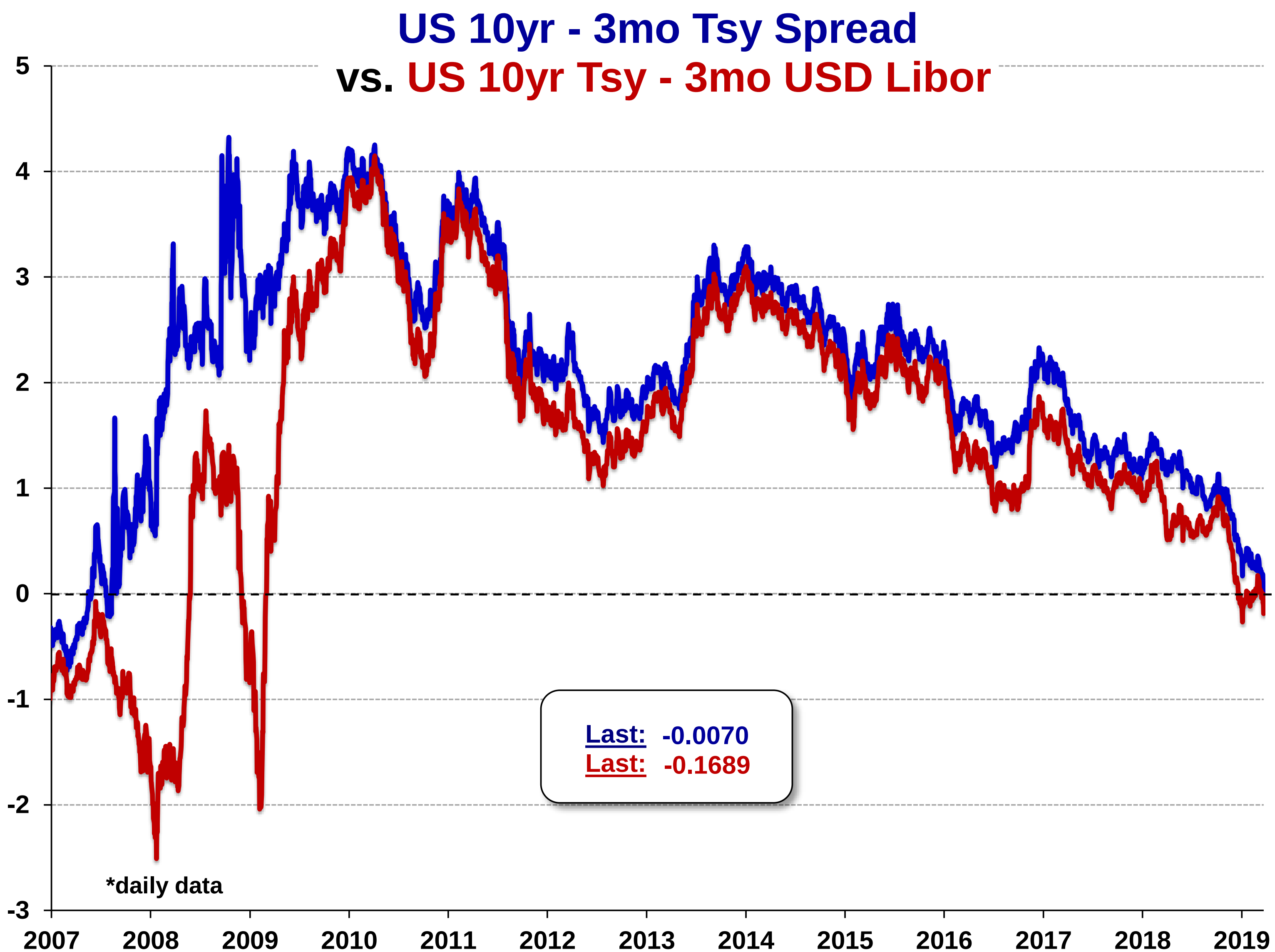
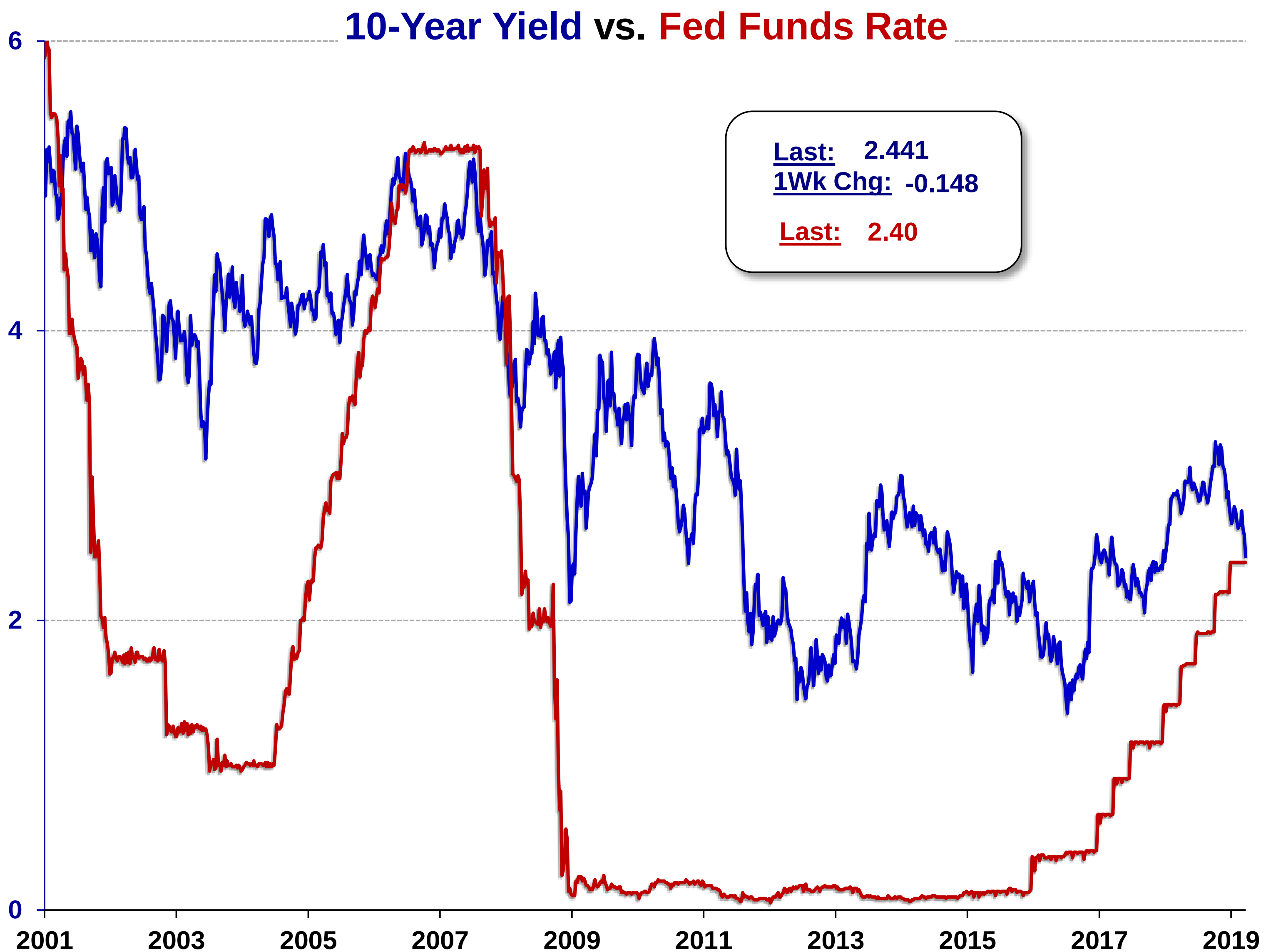
Buckle up, it's about to get bumpy: 10yr yield takes out January lows as growth fears intensify and the Fed assumes an uber-dovish tone (signaling no further hikes for 2019), suggesting the economic landscape is nowhere near as robust and resilient as consensus believes. *We've been saying that for some time.* All eyes on rates, inflation expectations, and oil in days ahead as we expect a retest of January market lows is forthcoming. Chart: perhaps the Fed noticed yields were slipping lower for 7 trading days leading up to their decision?



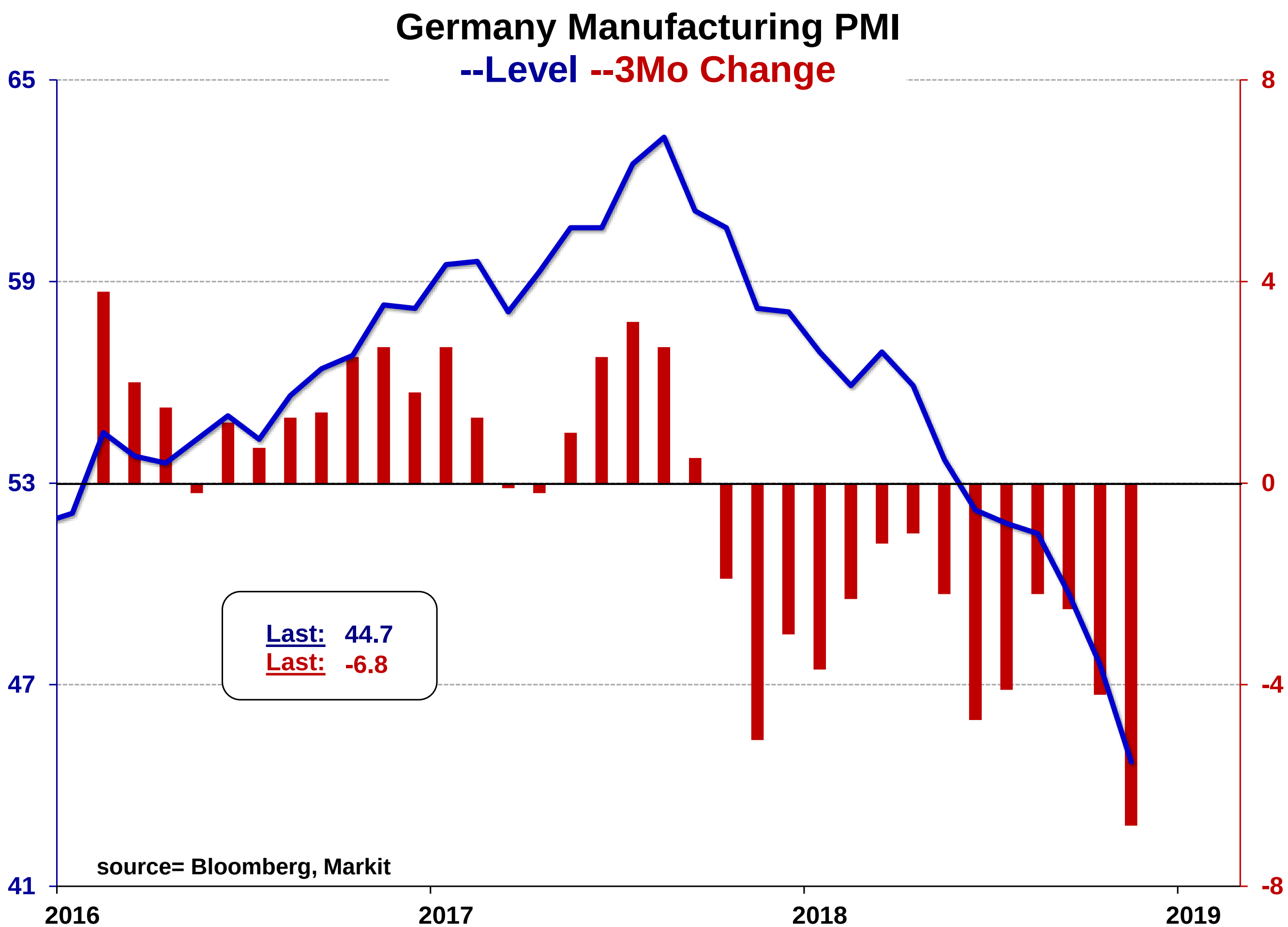
Recession signal: 10yr-3mo Spread inverts for first time since 2007



….and 10yr - Effective Fed Funds Rate spread nearly inverts as well

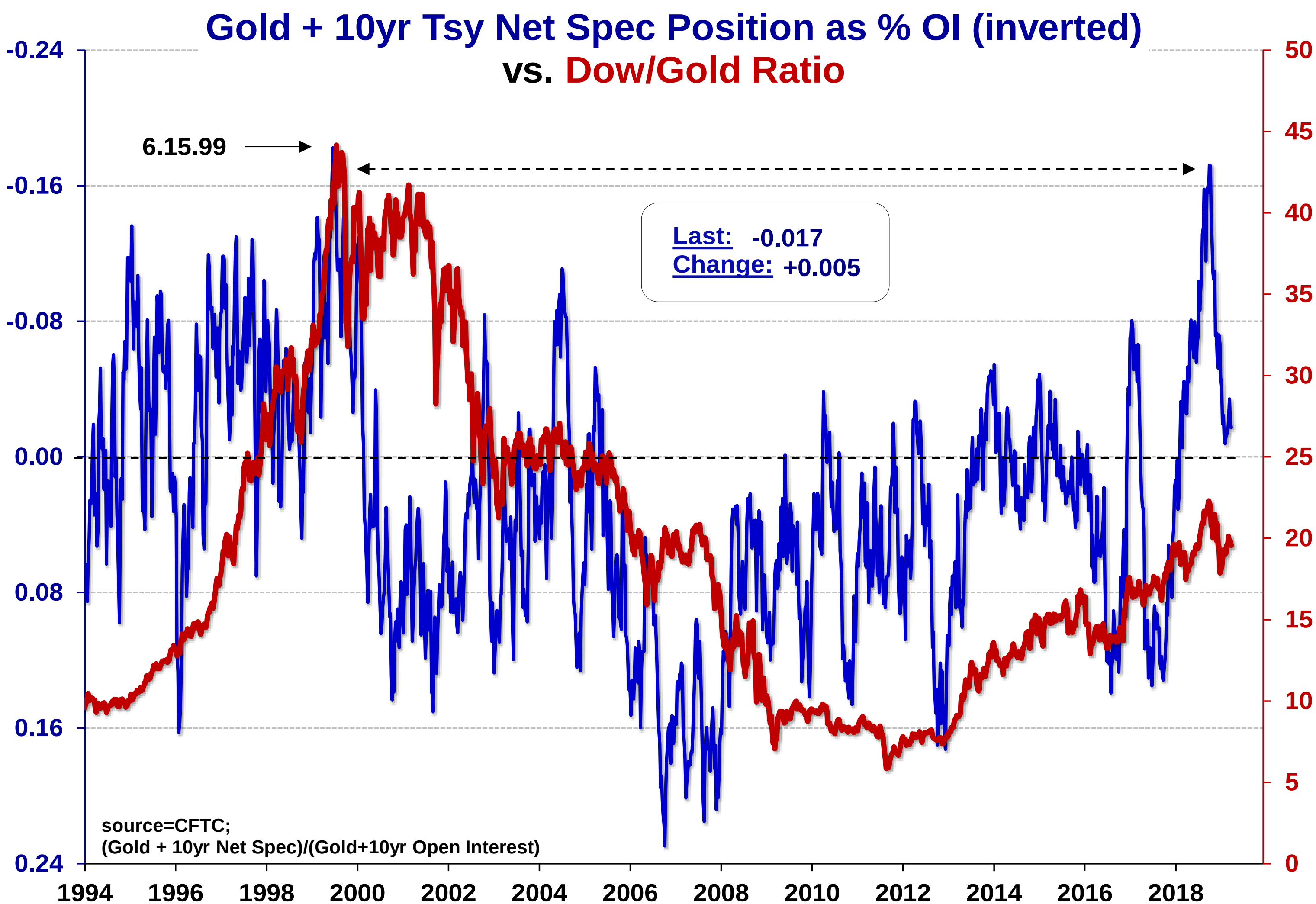


In our January 10th Macro Weekly, we suggested Germany may already be in recession (based on negative Q3 GDP print and recession-level Industrial Production y/y readings for 3 of 4 months thru November). Since then: Q4 GDP came in at 0.0%, Industrial Production posted negative y/y prints for last 5 of 6 months, and Factory Orders have posted negative y/y readings for 8 months straight thru January. And now this: German Manufacturing PMI drops for 8th straight month (down 14 of last 15 months) in March to lowest level since August 2012. All is certainly not well in the Eurozone. As such, global growth fears likely to intensify, perhaps setting stage for repeat of 2011 global market turmoil as Eurozone debt crisis and growth fears spread.

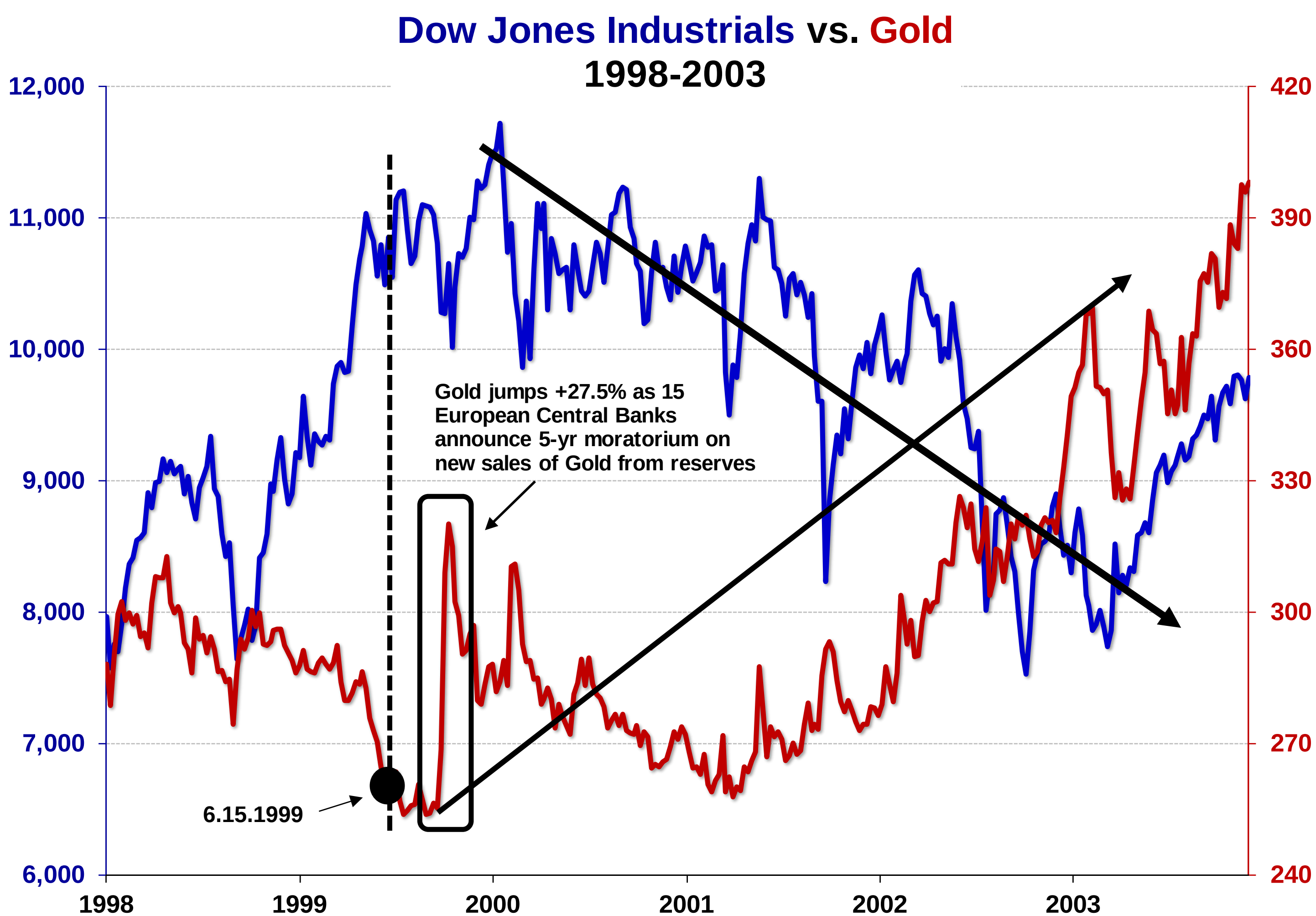


Following weak Manufacturing PMI print, German 10yr bond yield turned negative for first time since 2016

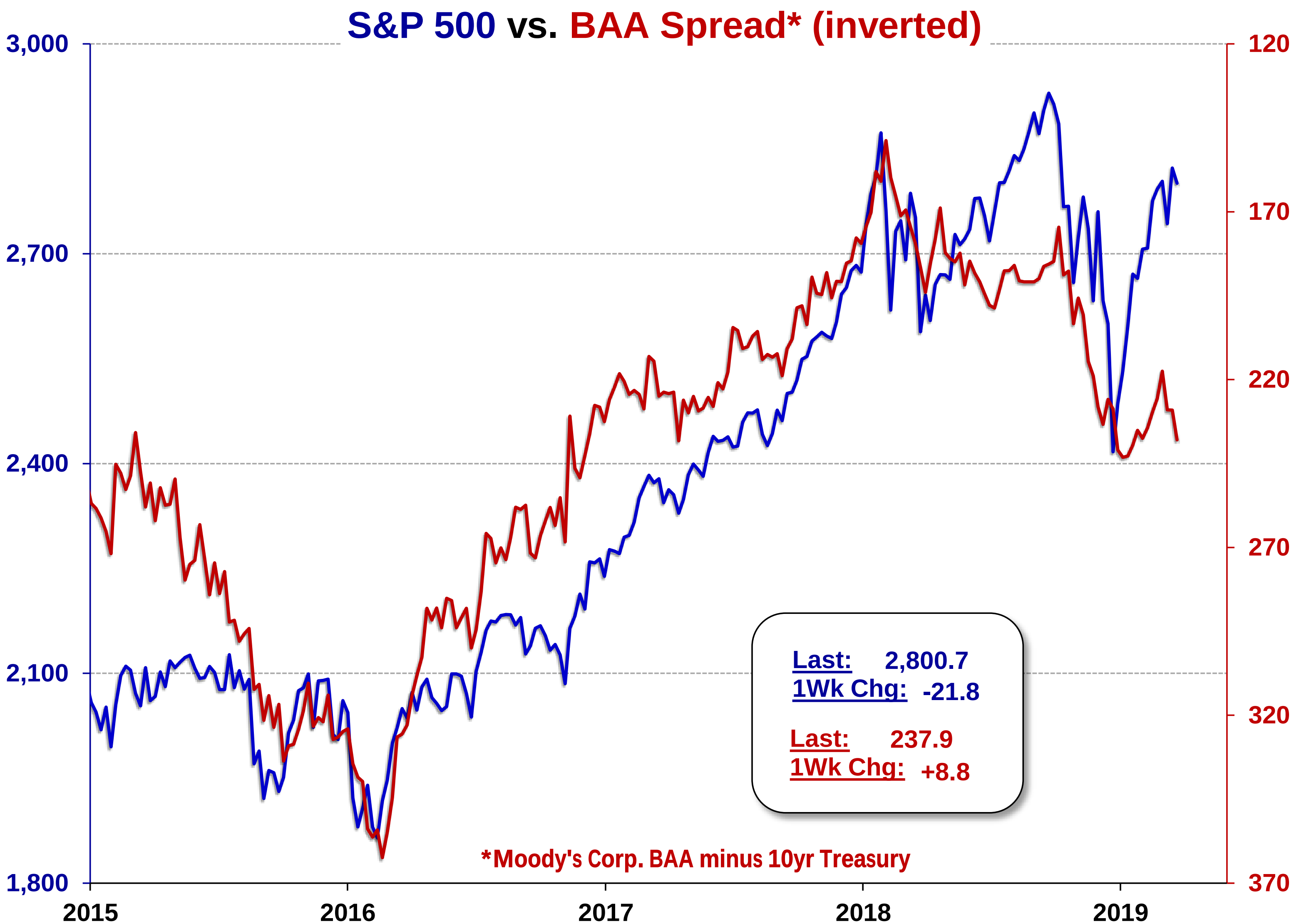
In our Nov. 20th Macro Weekly, we identified… *"a potential tectonic shift in market sentiment. At the start of October this year, Gold +10yr Treasury Net Spec Position as % Open Interest dropped to **2nd lowest reading on record** (record low was on June 15th 1999). As it turns out, another indicator hit a major inflection point at the same time in 1999: **the Dow/Gold Ratio***. We believe this major inflection point (at market top in October) will prove prescient; ie – market highs are behind us and Gold is set for extended bull market.



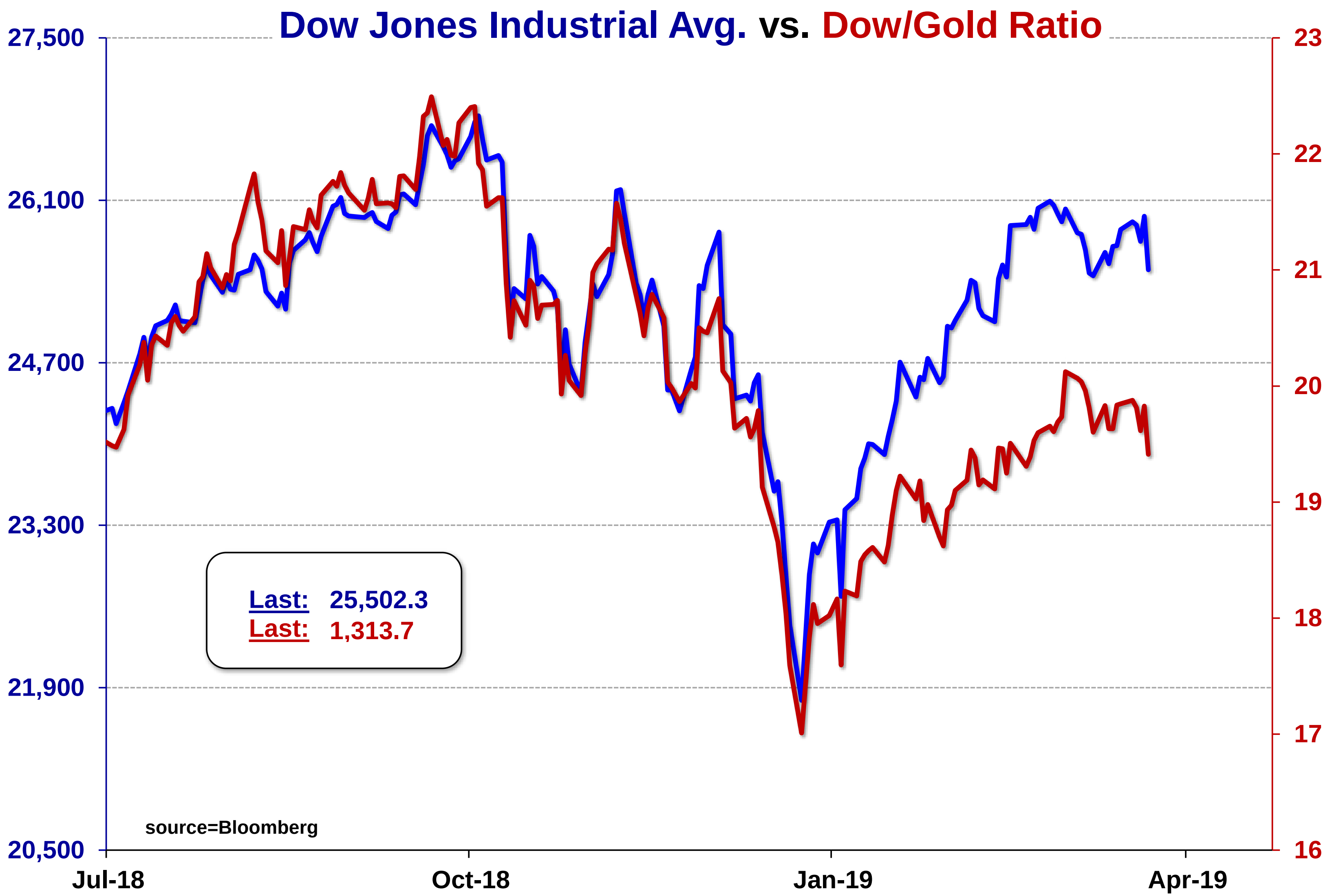
From the same report: *"If past is prologue, stocks may perhaps have some life left in them in next couple months before entering a several year downturn. Chart: a closer look at how it played out in 1999…Gold bottomed early September 1999 then spiked +27.5% as 15 European Central Banks announce 5yr moratorium on reserve Gold sales; the Dow peaked in early January 2000"*. The YTD market surge is exactly the 'life' left in stocks we were suggesting, and followed up with anticipating the market turn in our Dec. 23rd Macro Weekly in which we identified a number of oversold conditions indicators. As equities have been unable to reach new highs, and as the macro clouds are no doubt gathering, there is every reason to believe the decade-long market rally has begun to fizzle and the start of a sustained bear market has arrived. Along with our expectation of stocks retesting…and likely breaking below… December lows, we anticipate the Fed will first be forced to pull forward termination of balance sheet reduction, thus setting the stage for rate cuts and more QE.



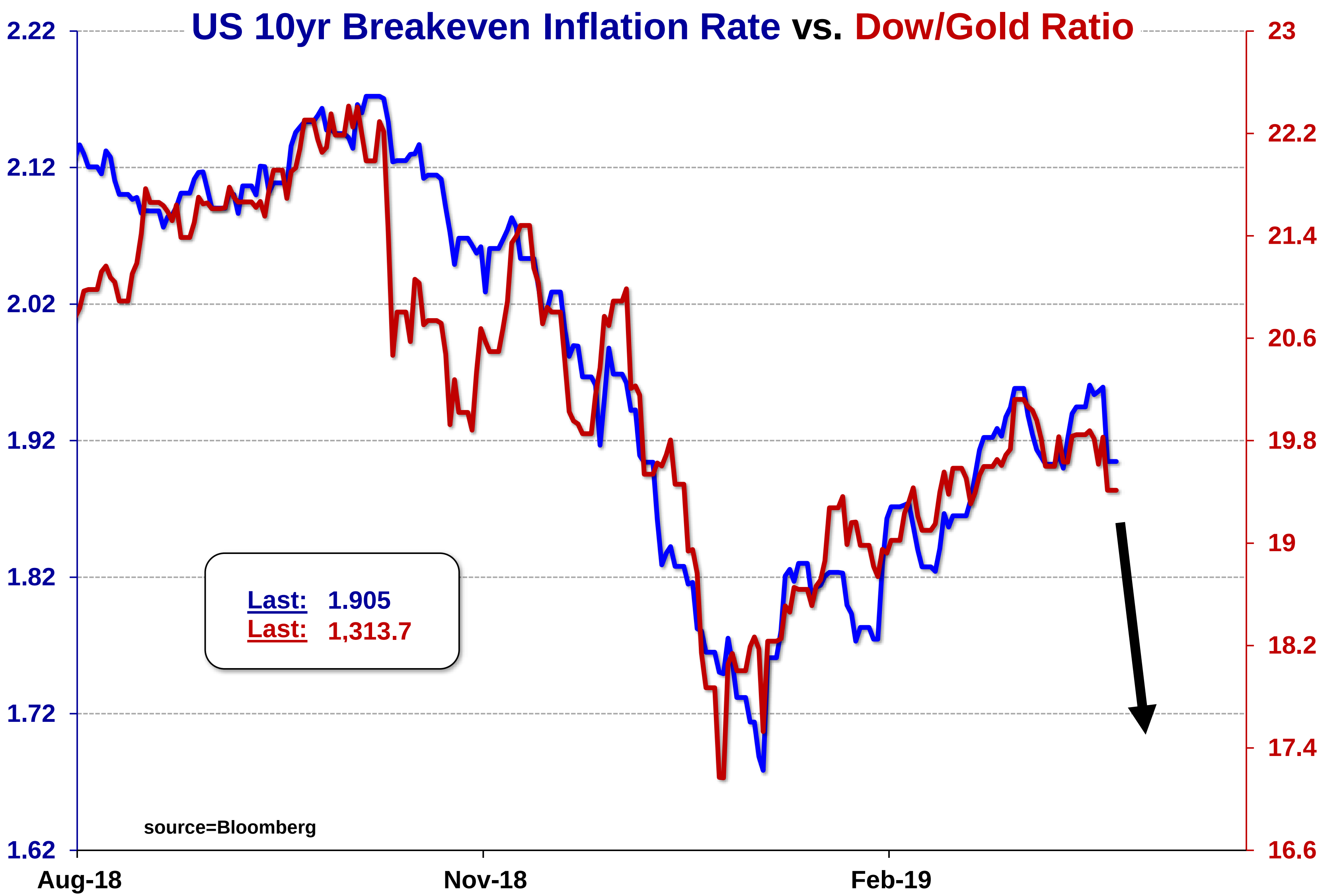
Another among our list of wide gaps noted in the weekly Equity Indices roundup is this gem: BAA Spread at/near January lows as S&P up nearly 12% YTD. We suspect, starting this week, we will see the gap close along with a wide swath of such comparative series…much to the detriment of stocks.



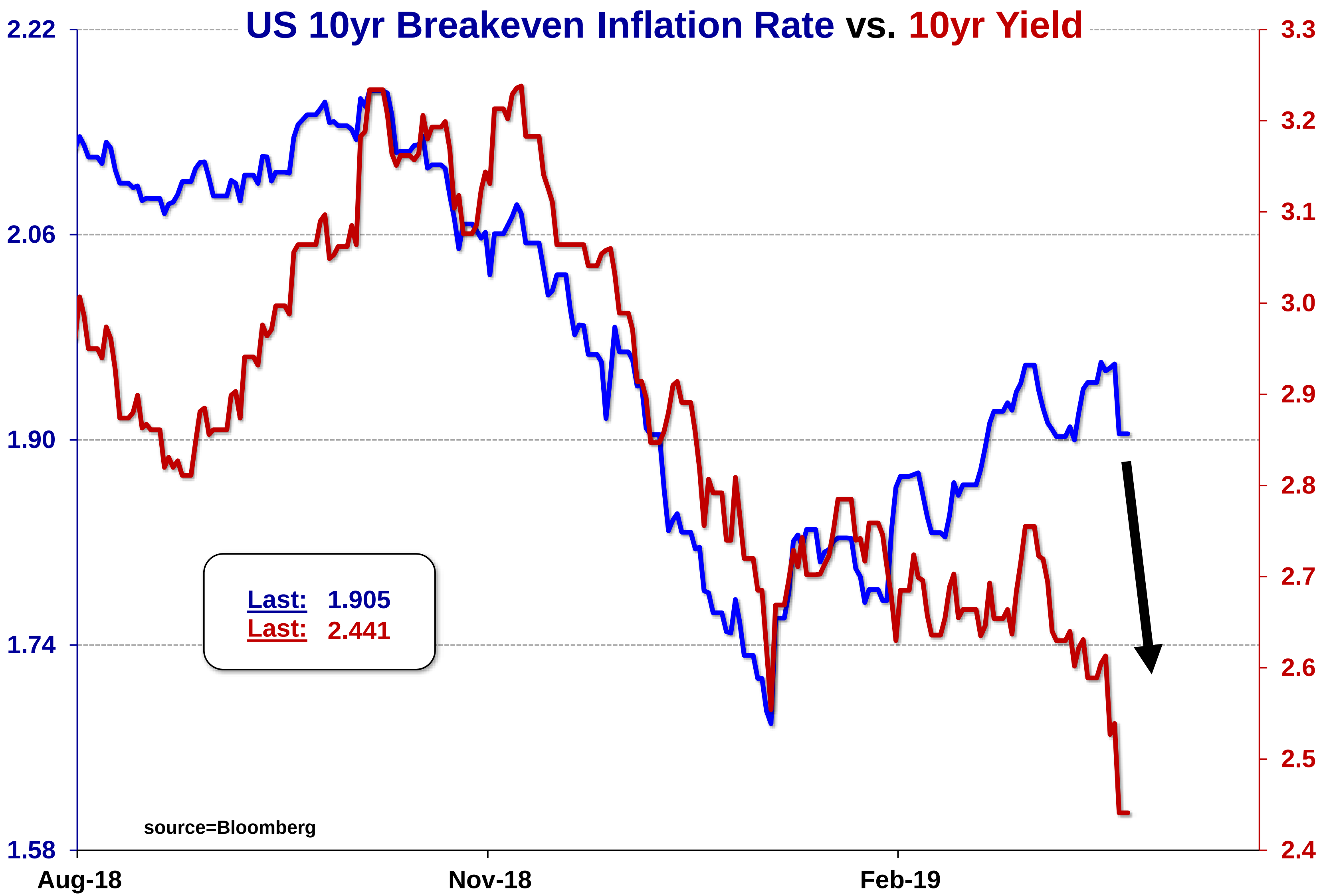
Meanwhile, it's has been clear Gold has performed quite well so far this year relative to stocks



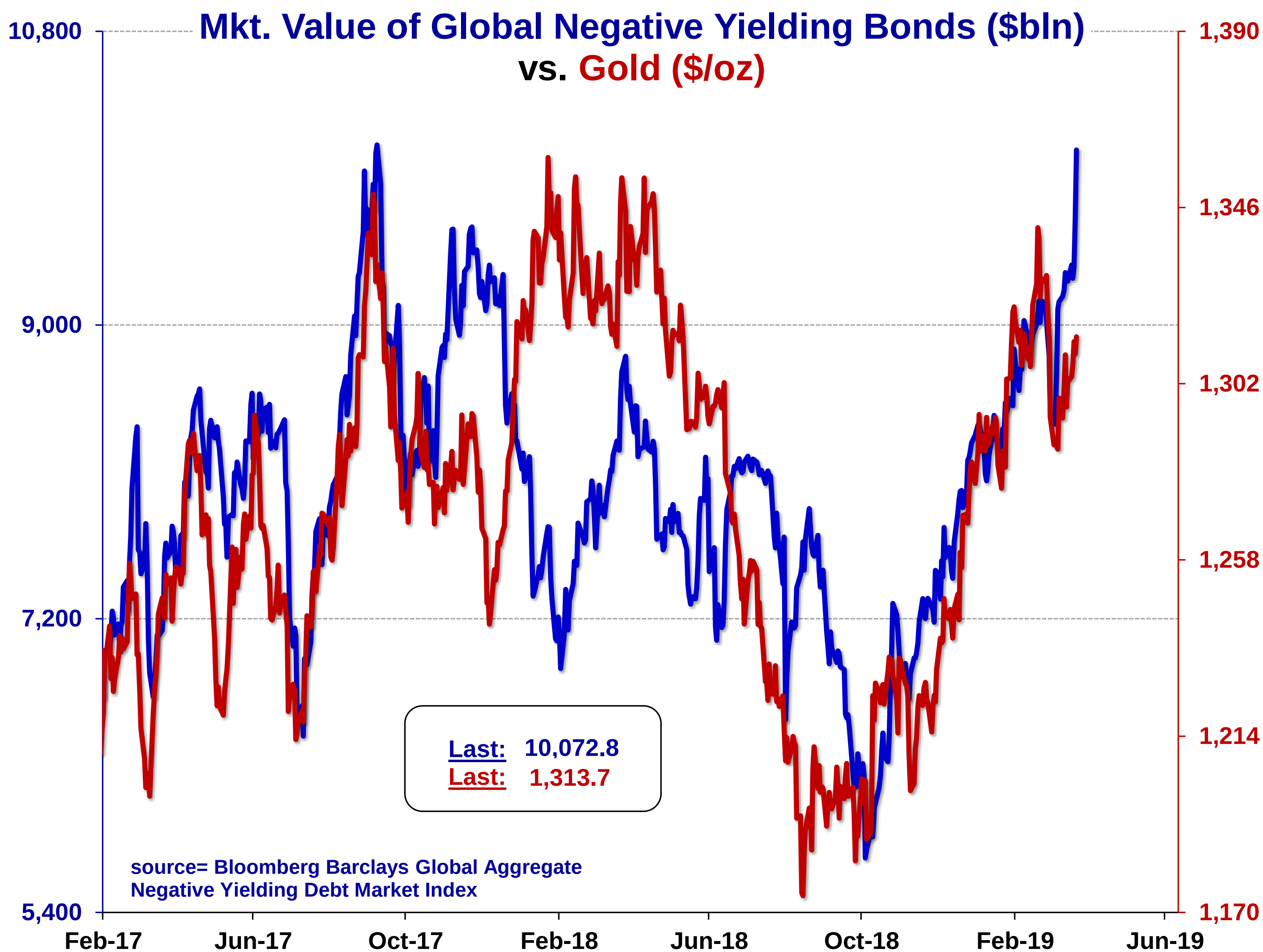
…and should we see continued deterioration in Yields and Inflation Expectations, further gains for Gold are ahead



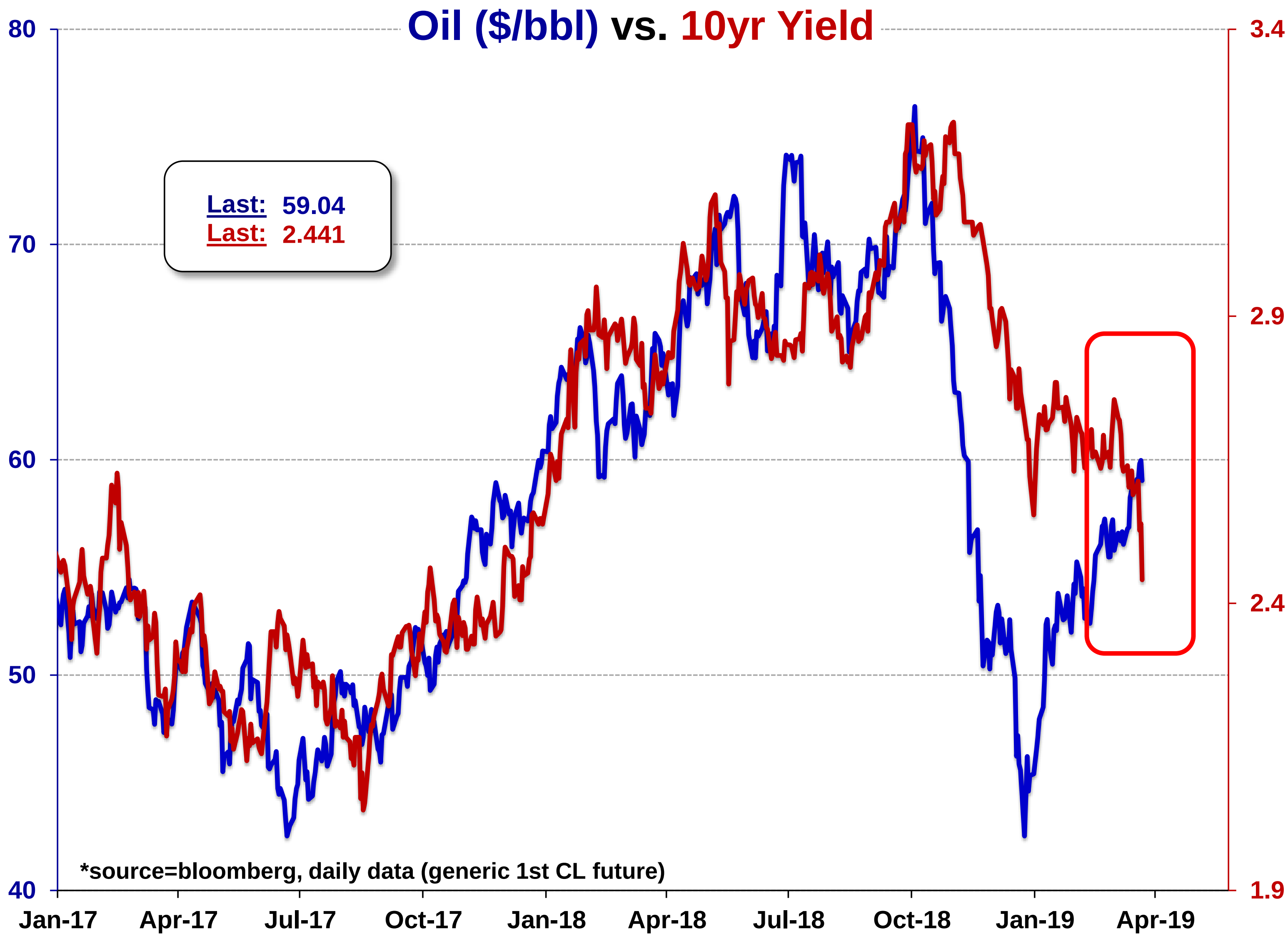
Re: the above chart: if Inflation Expectations set to catch-down to 10yr Yield, as one might expect, then Gold should do quite well



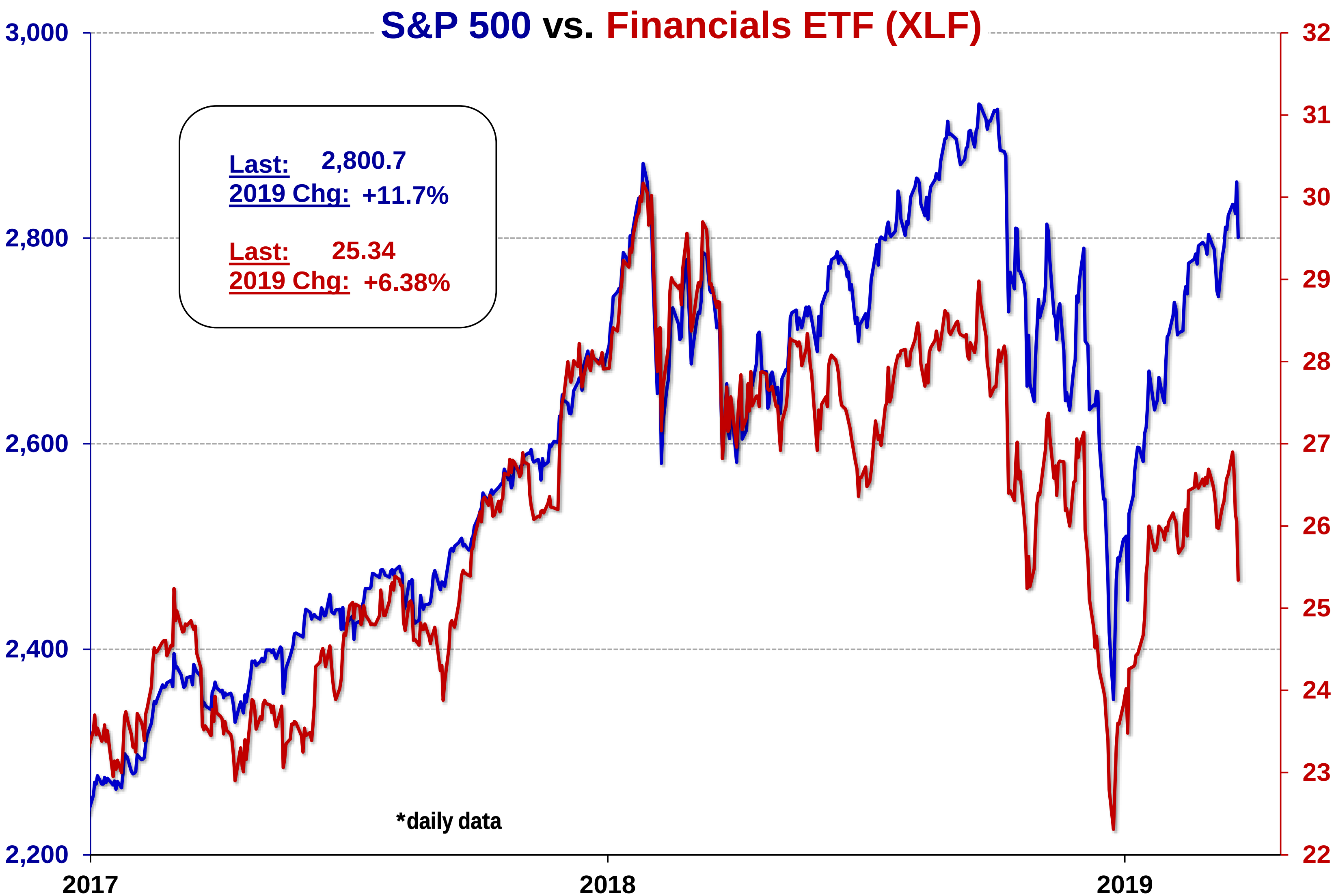
Along with slide in rates (and German 10yr turning negative), Market Value of Global Negative Yielding Bonds rose $421 Billion on Friday to $10.07 Trillion…$2.1 Trillion shy of record high; Gold follows higher.



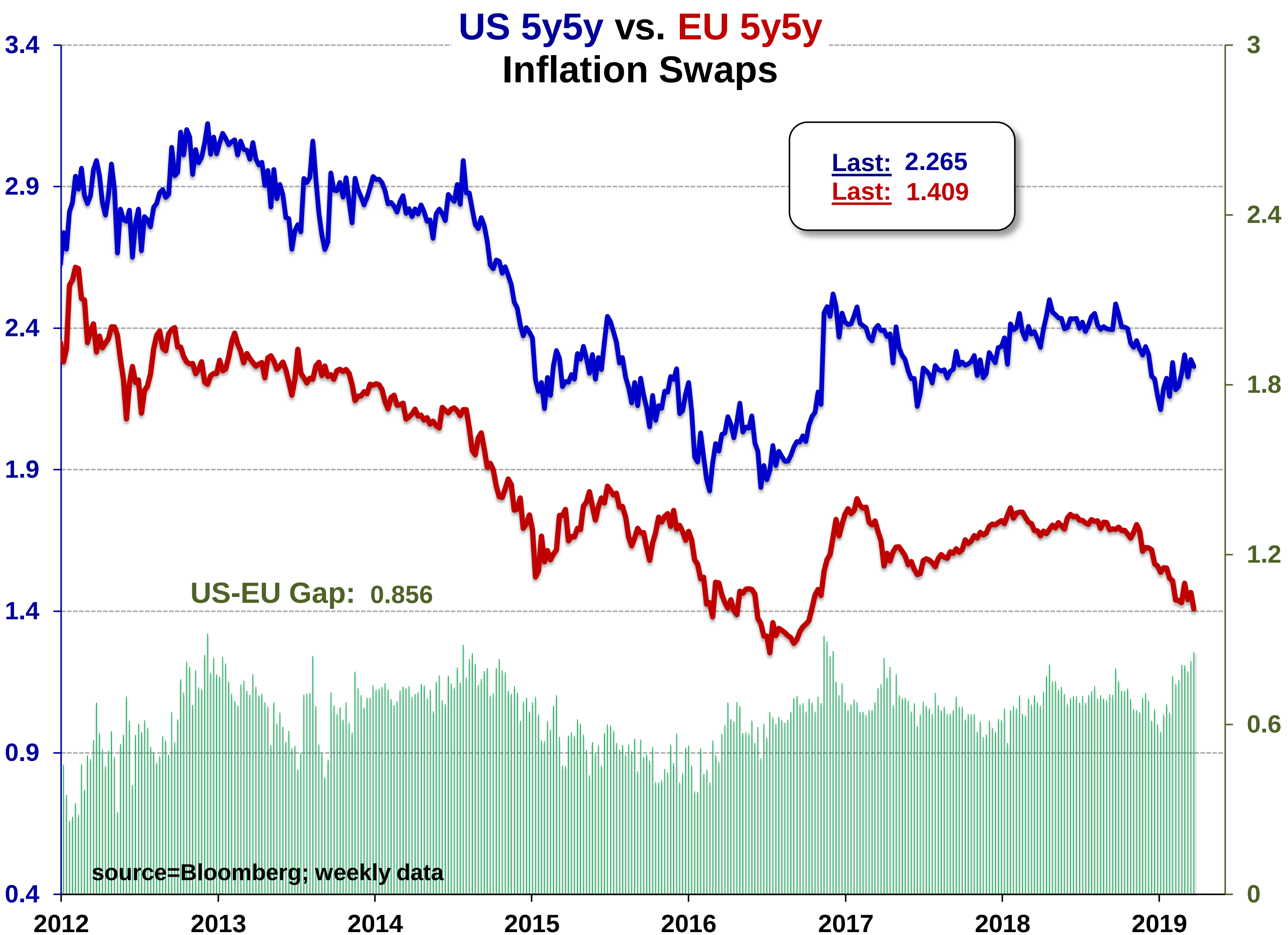
As inflation expectations begin to slide, as we expect they will, there seems little doubt oil will turn lower before long. Chart: Oil and 10yr yield cross paths; oil to follow equities lower as growth fears build.



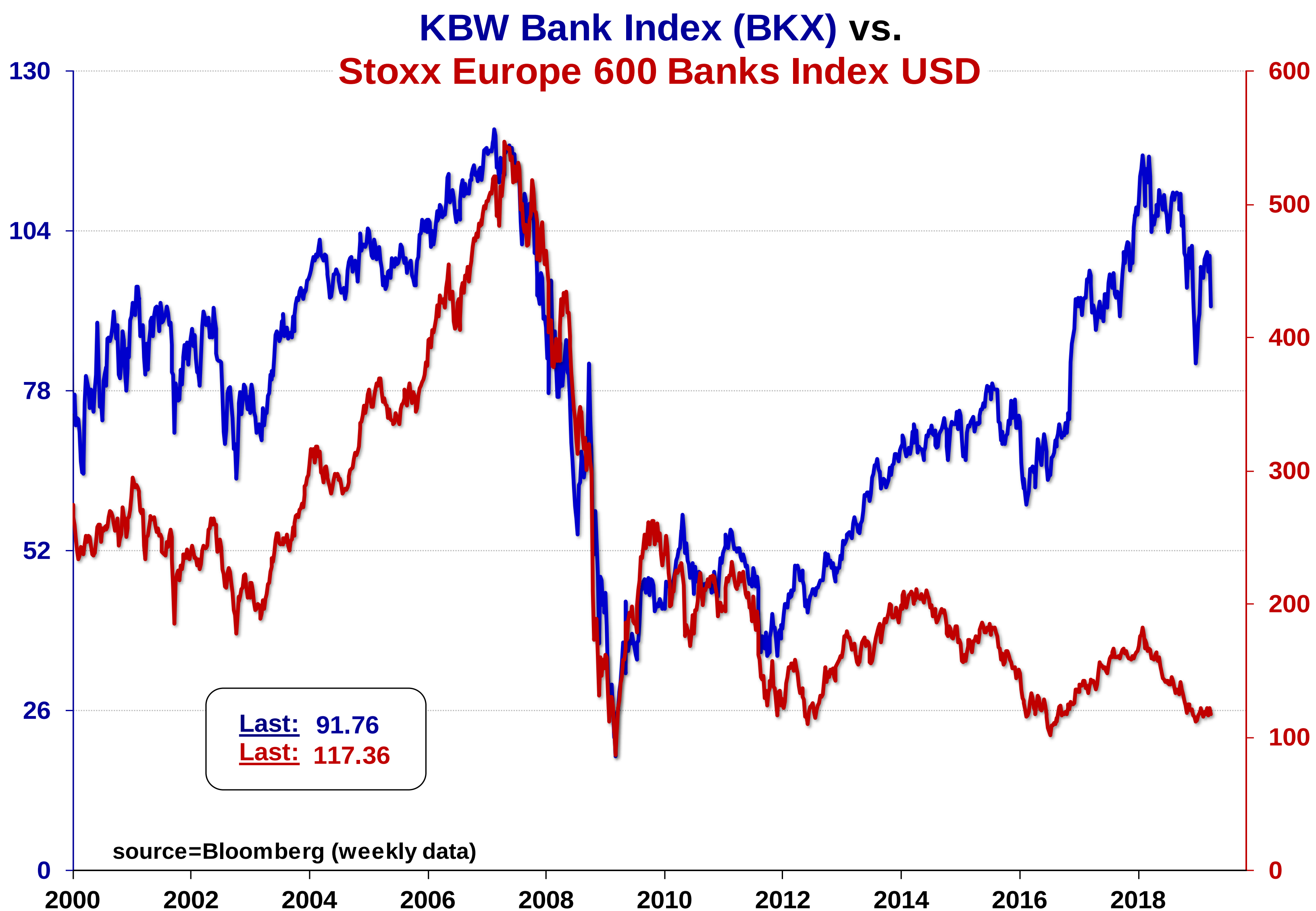
Another gap set to fill: Financials tumble as 10yr yield drops to lowest since December 2017; XLF drops -4.8% w/w, KBW Bank Index drops -8.3%, and KBW Regional Bank Index drops -9.4%.



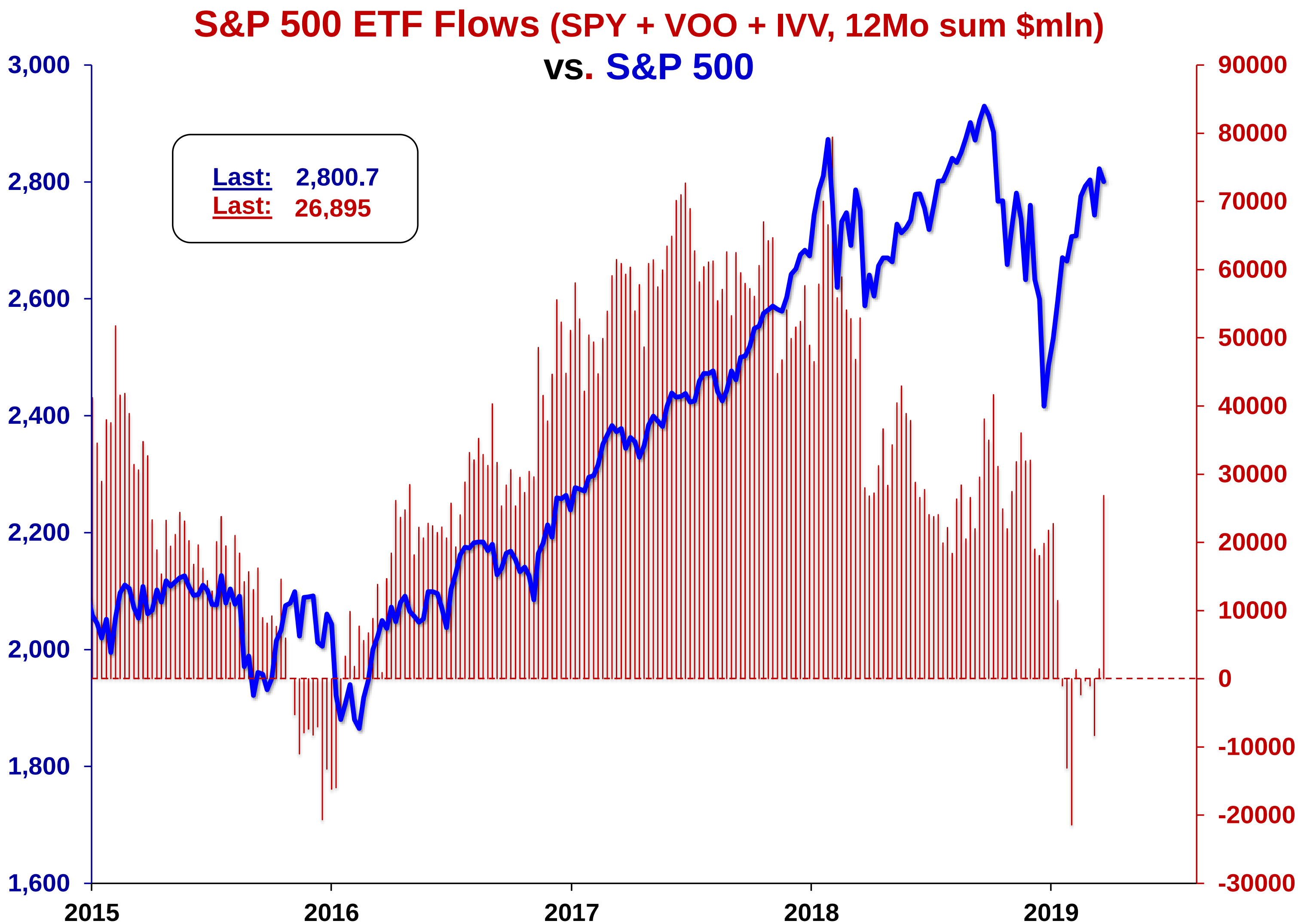
Gap between USD and EUR Inflation Expectations (5y5y swap rates) remains wide; **EUR rate drops to lowest since October 2016**



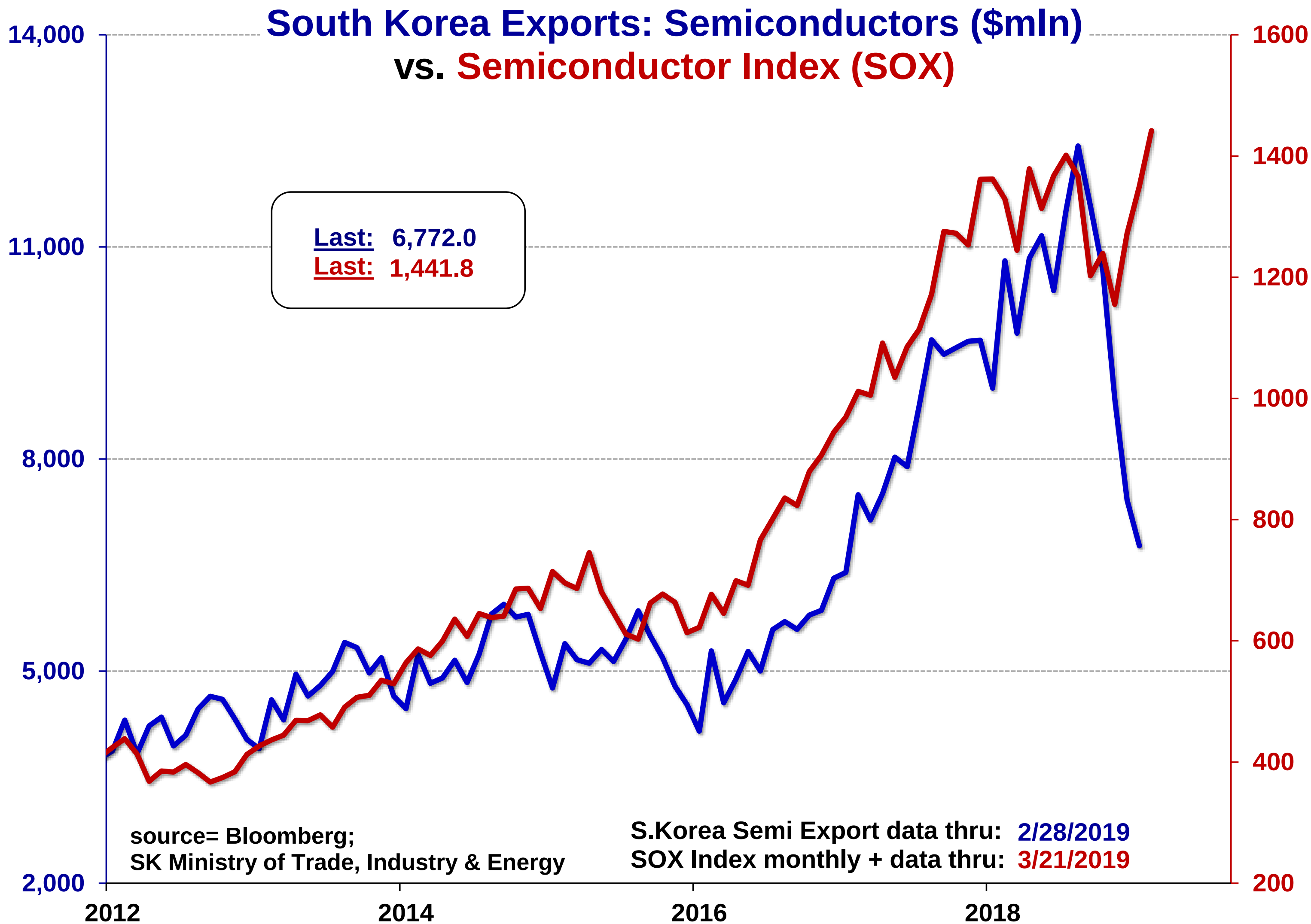
As such, the worst for Financials likely ahead



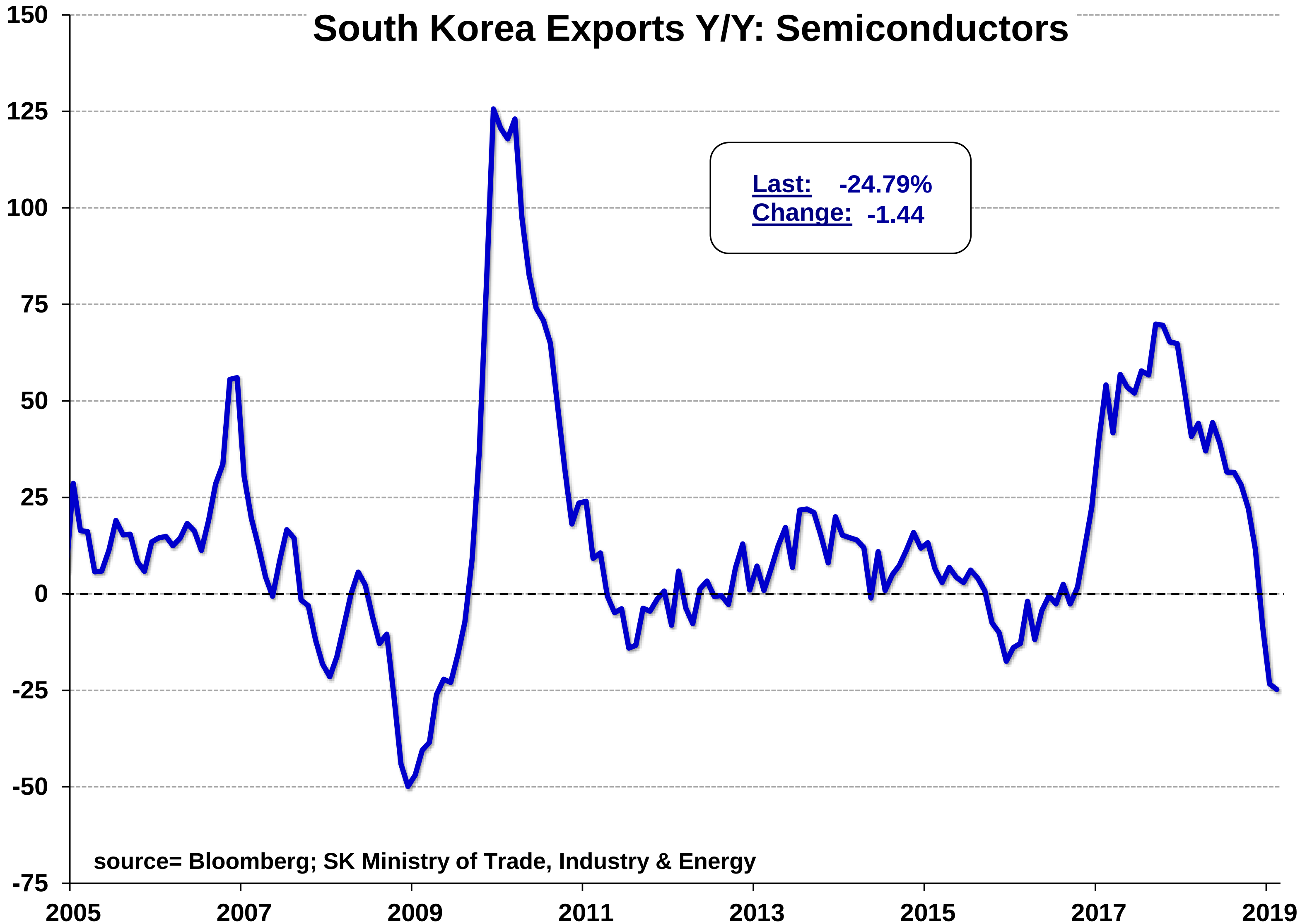
S&P 500 ETFs (SPY + VOO + IVV) saw combined inflows for last 5 of 6 weeks. On 12mo basis we see an inflow jump as of Friday's update, however this jump is a result of weak data a year ago as S&P tested (and briefly fell through) the 2600 level. **In short: the 12mo flow data has been quite weak considering the strong rebound in stocks.**



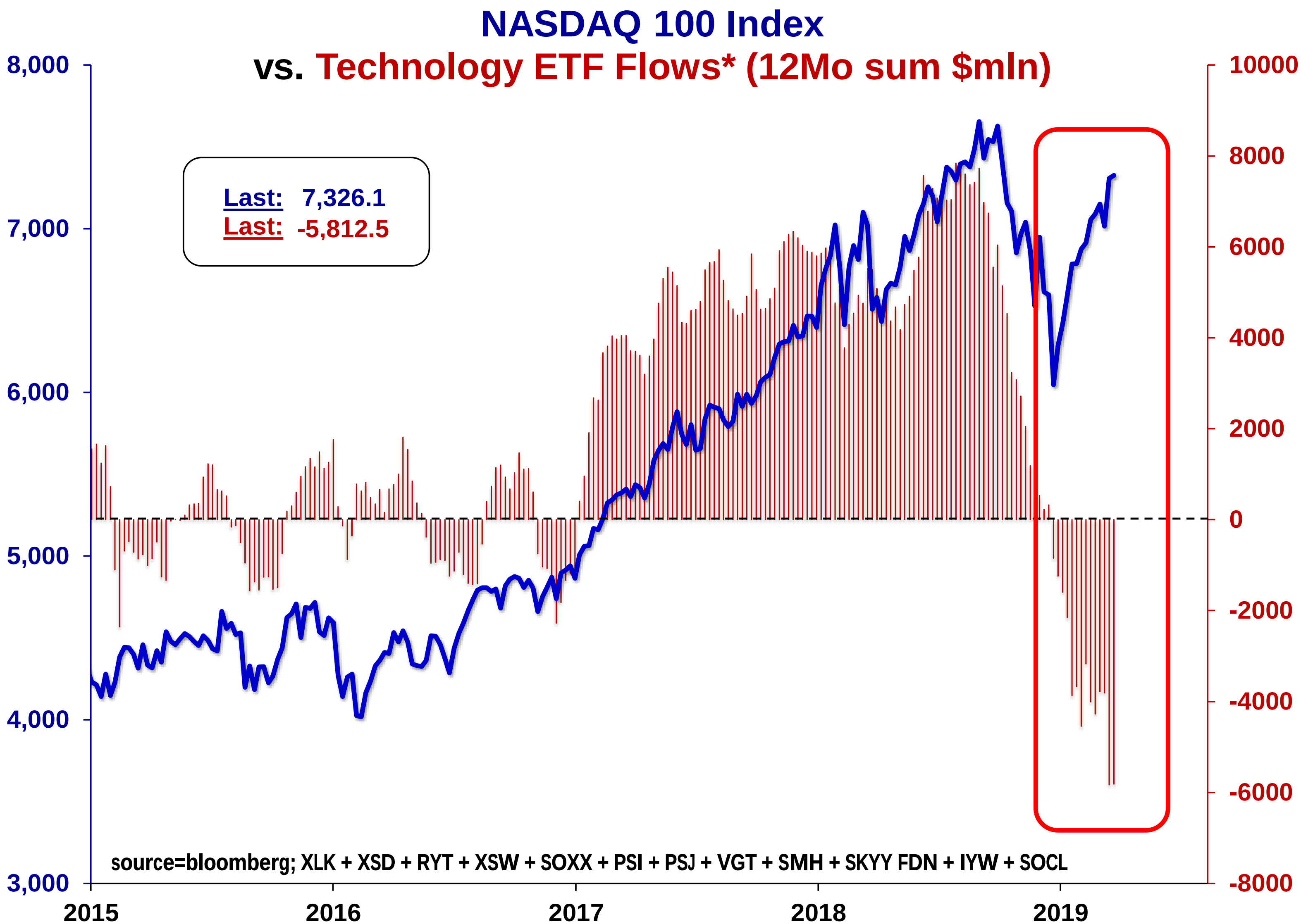
Tech stocks, as usual, have led the market higher…which brings us to this data set we came across last week: **South Korea Semiconductor Exports have collapsed to Feb. 2017 level. This as Semiconductor (SOX) Index touched a record high this past Thursday.** This gap is really quite glaring, suggesting Tech stocks set to hit a big air pocket in the very near future.



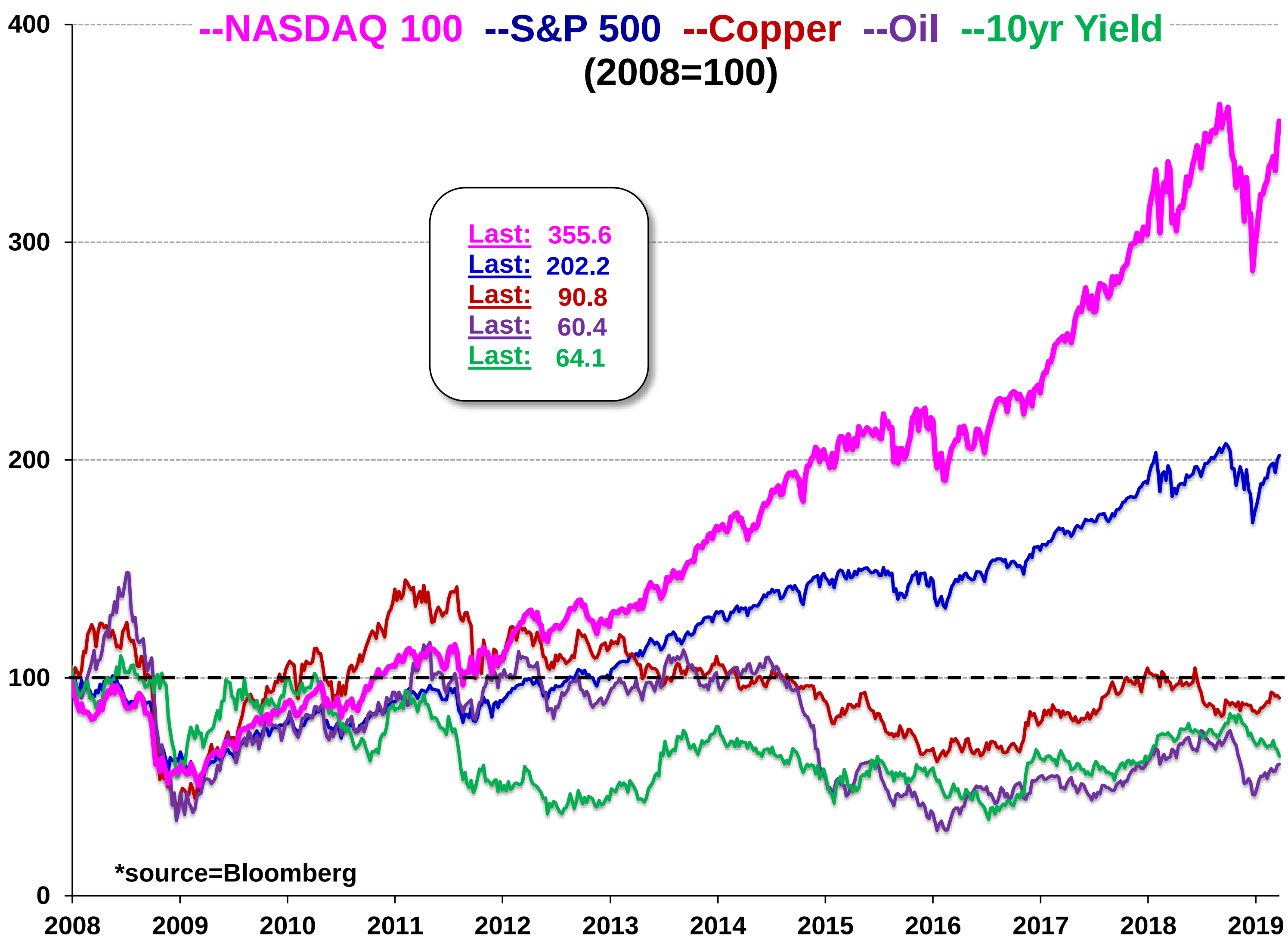
South Korea Semiconductor Exports y/y: recession reading: -24.8%



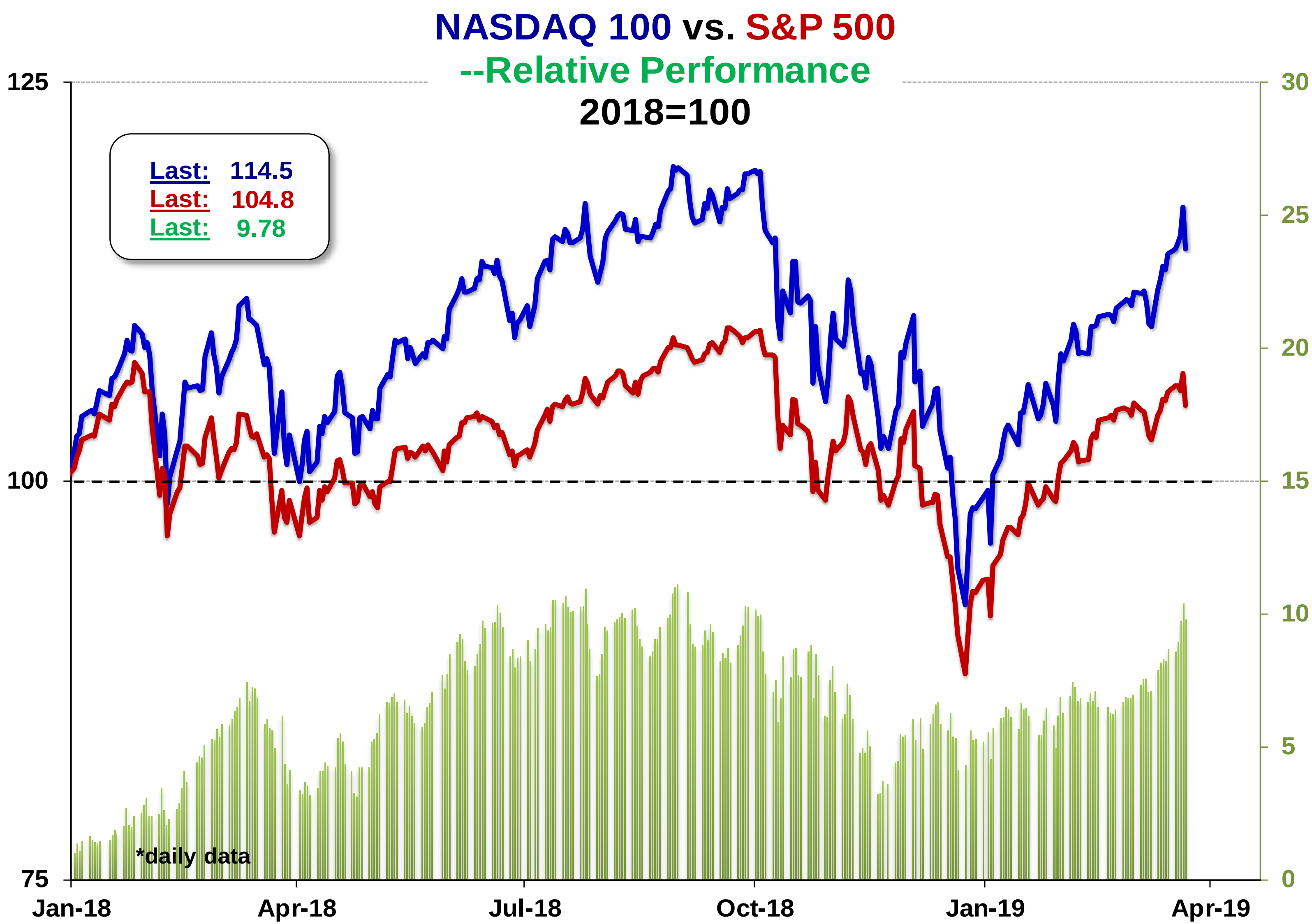
As for the Tech ETFs (a combination of Tech, Semiconductor, Cloud, Social Media, and Internet ETFs; 13 total), the 12mo ***outflows*** continue to grow. Not much support here, that's for certain.



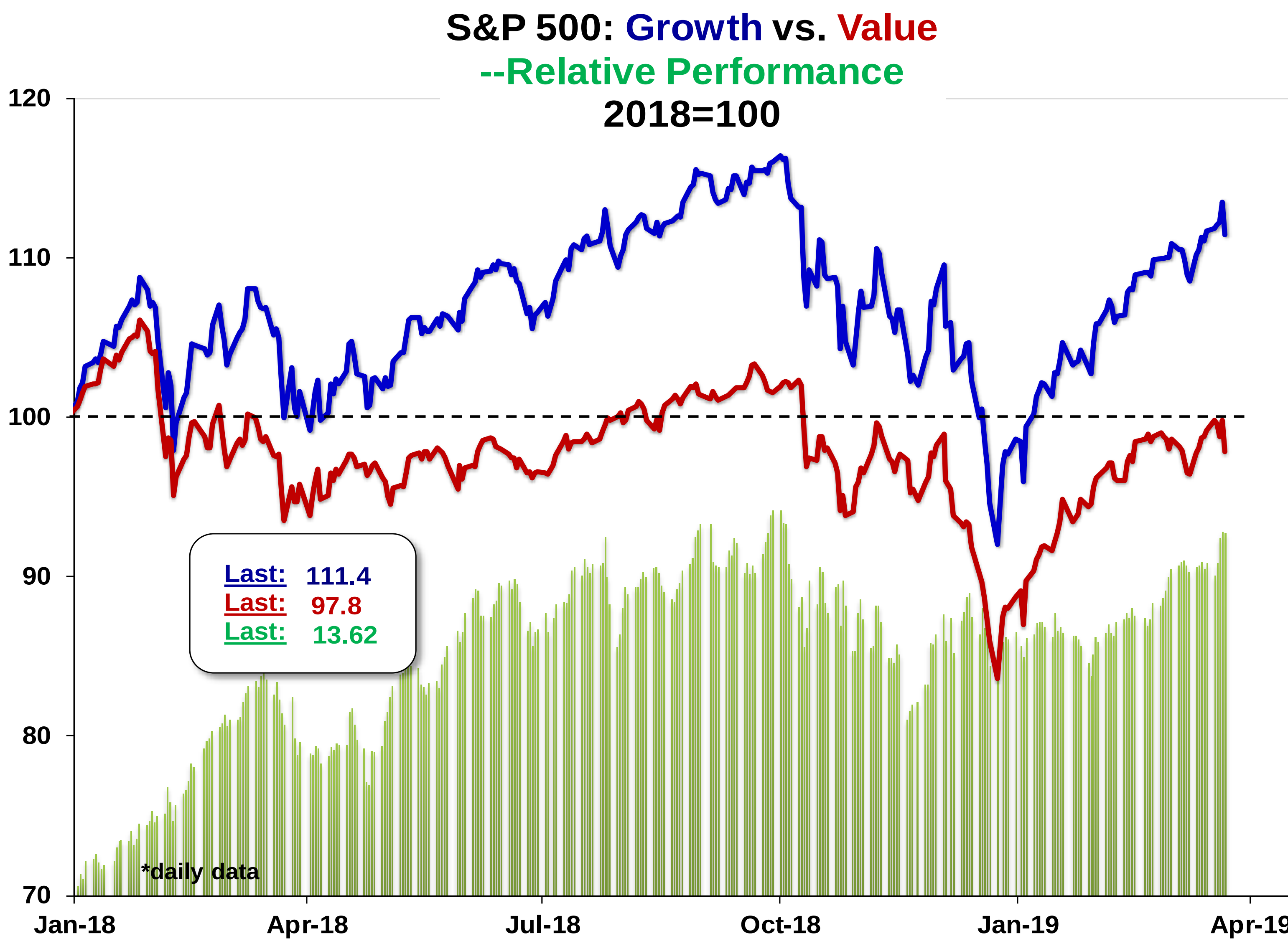
When the market turn comes, which we believe begins in next few days, the downside will be led…once again…by the Tech sector. This time may be different however as global growth fears, weak consumer data, and a Fed signaling that essentially 'somethings' not right' lead to a retest and break below December lows. And, as Tech stocks have no doubt exacerbated the market upside, so too will they on the downside.



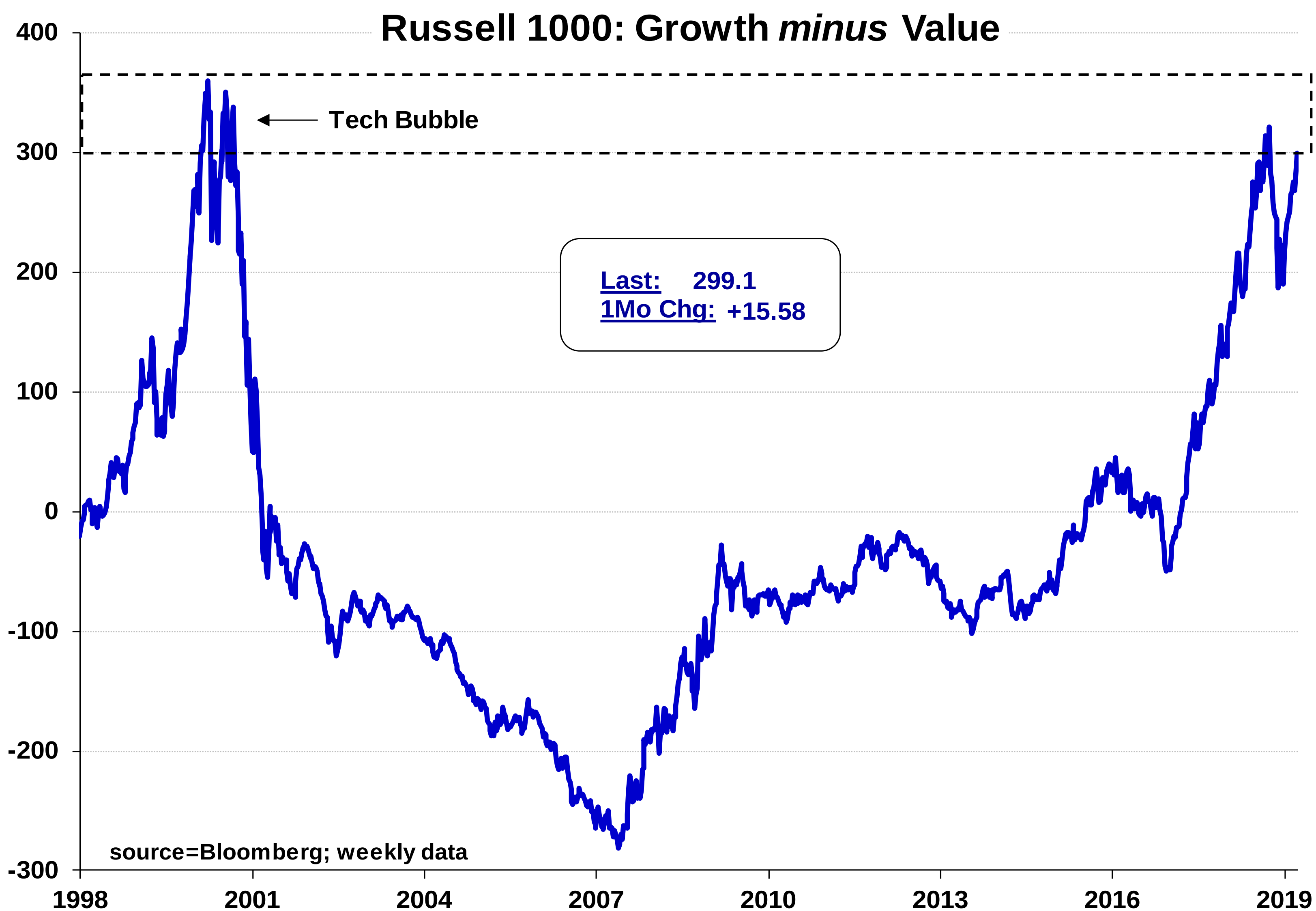
NASDAQ performance vs. S&P 500 jumps to 9.8pts (from 2018), widest since market began to roll over last October.



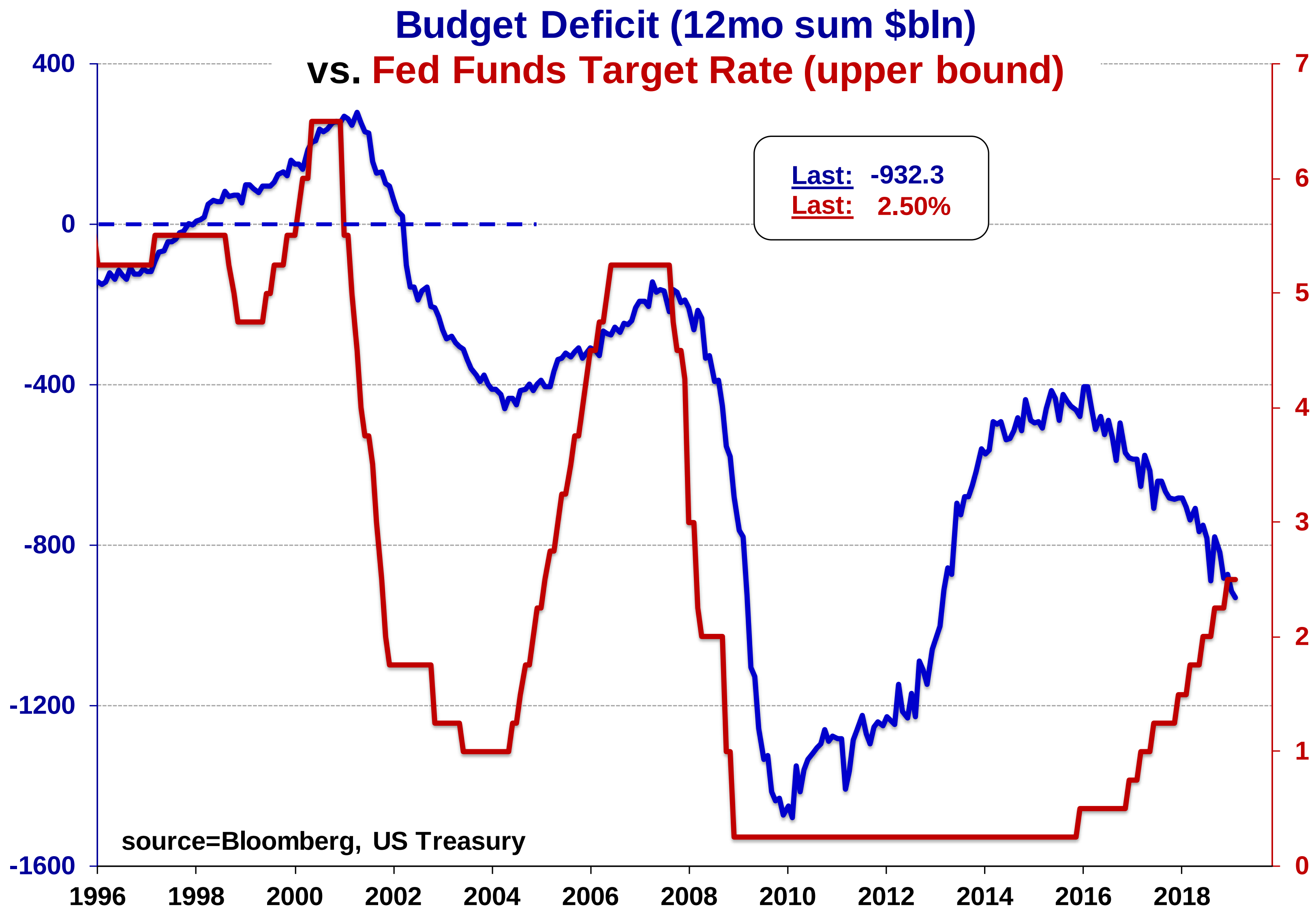
S&P Growth performance vs. S&P Value performance: 13.6pt gap (from 2018), widest since market began to roll over last October.



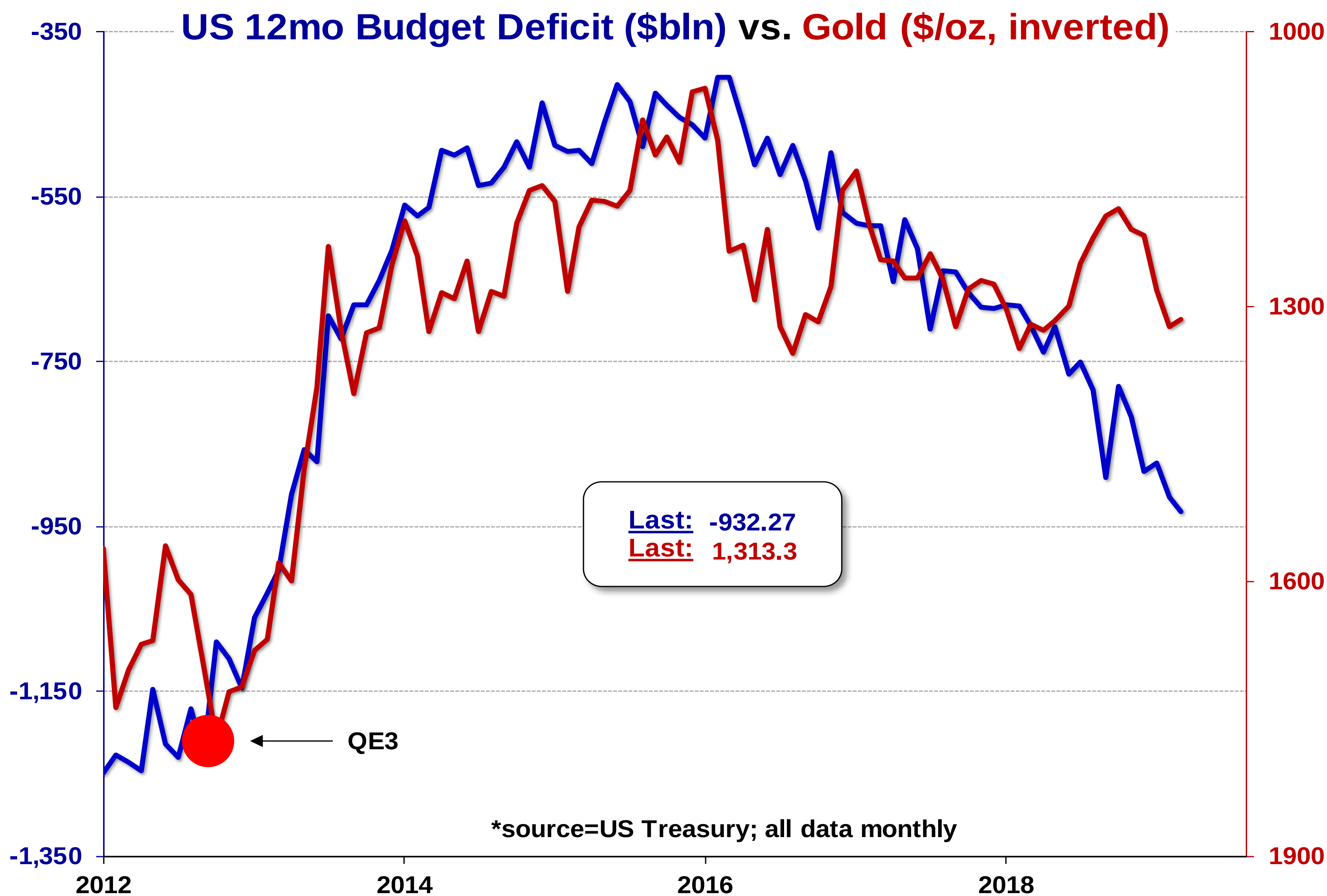
Russell 1000: Growth minus Value: rises back into 'bubble' box territory, as happened at Dot-Com bubble peak



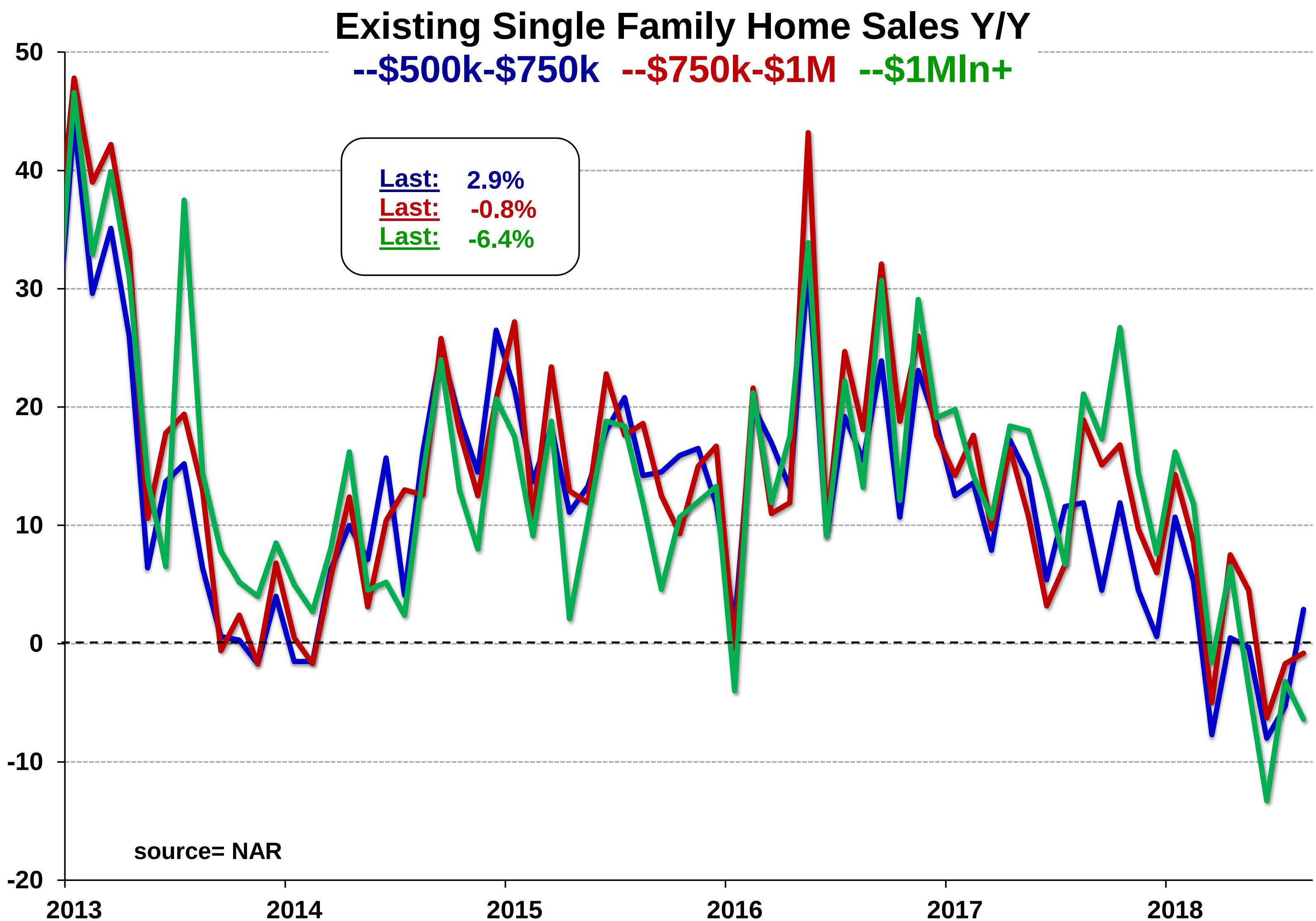
February Budget Summary posted a record -$234bln deficit, widening the 12mo deficit to $932bln. Chart: how long until Fed forced to cut rates in face of deteriorating macro?



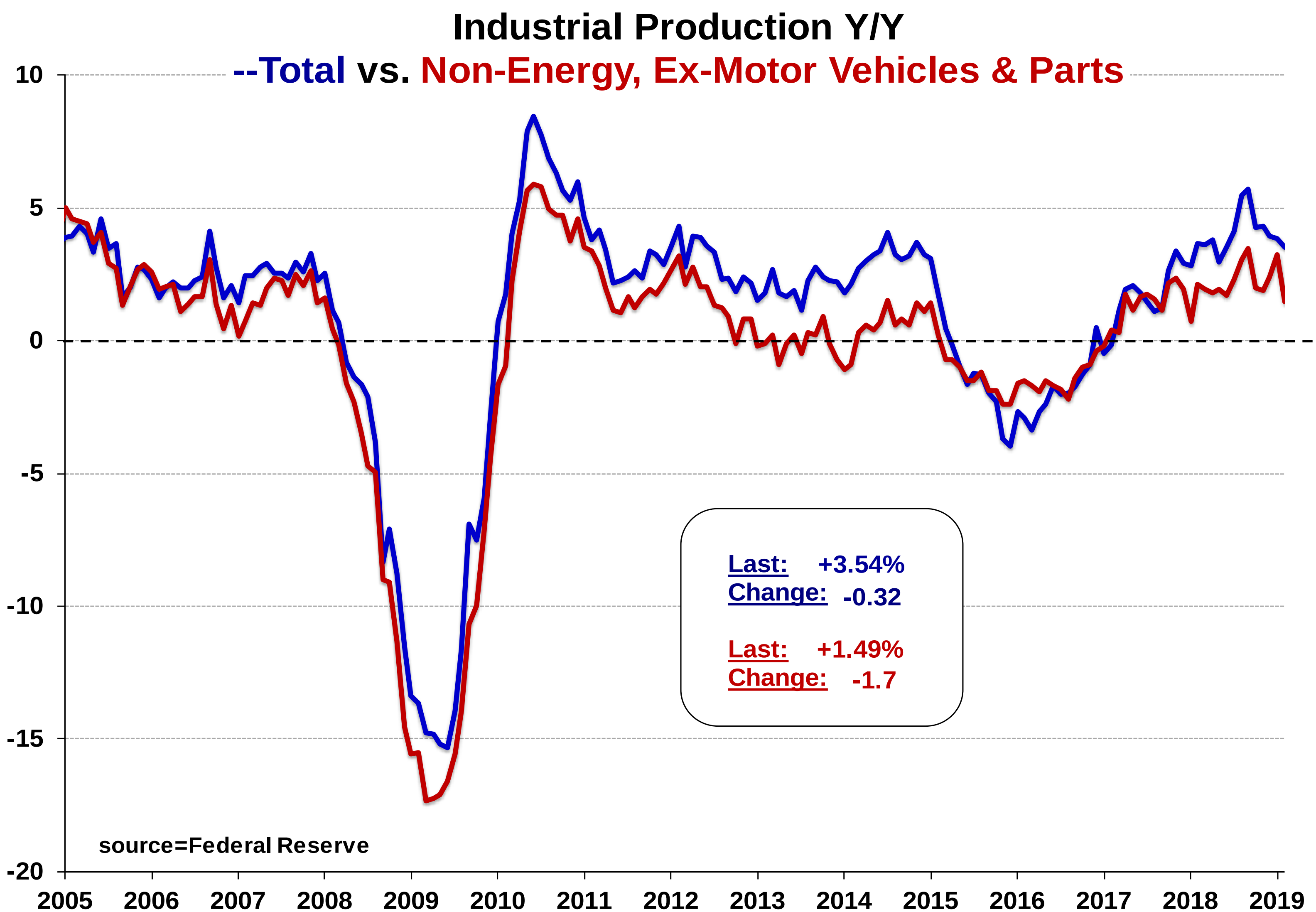
Yes, one more Gold chart! Gold set to rise in tandem with widening deficit…



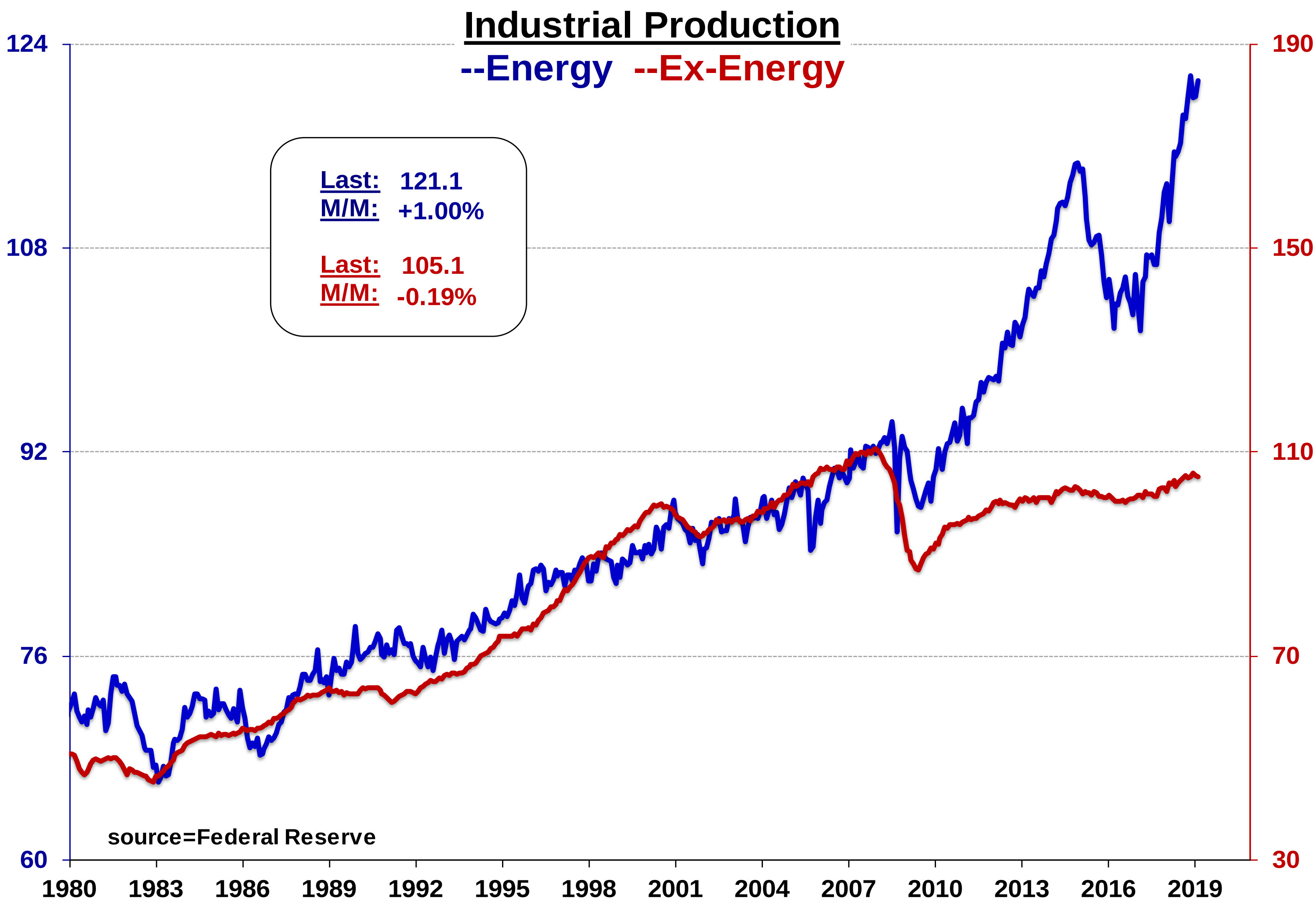
Existing Home Sales handily beat expectations: +11.8% m/m vs. expectations of +3.2%. It seems the continued slide in Mortgage Rates is helping, however Sales have still posted negative y/y readings for last 13 of 14 months. Also, it seems 'high-end' sales ($750k & up) remain weak…



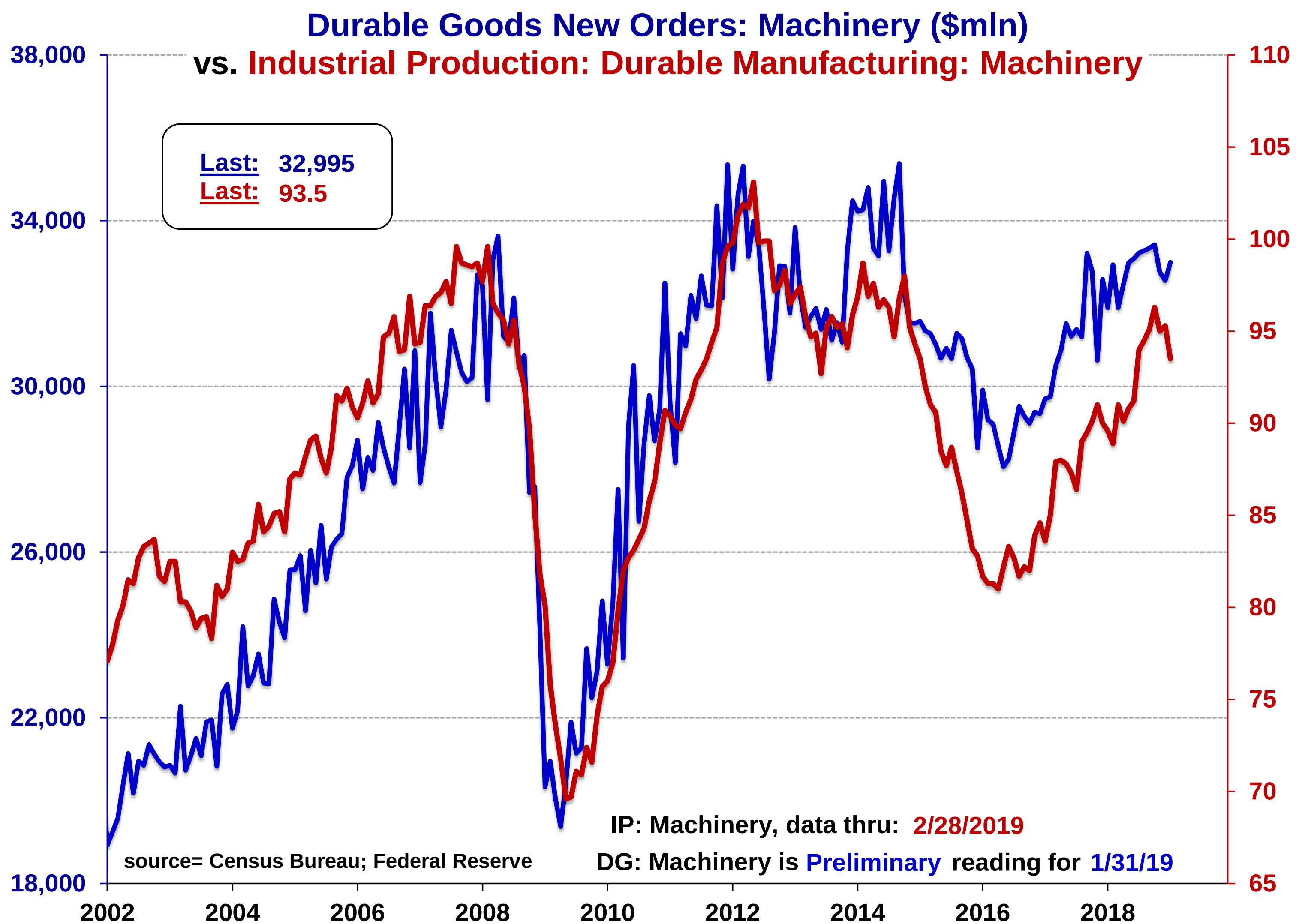
Industrial Production rolling over? Composite IP index: +0.1% m/m vs. expectations of +0.4% in February; January revised higher from -0.6% to -0.4% m/m. IP y/y slips -0.32pts to 3.54% y/y, lowest since last June**; IP Non-Energy Ex-Autos & Parts tumbles -1.7pts to 1.5% y/y…lowest since January 2018**



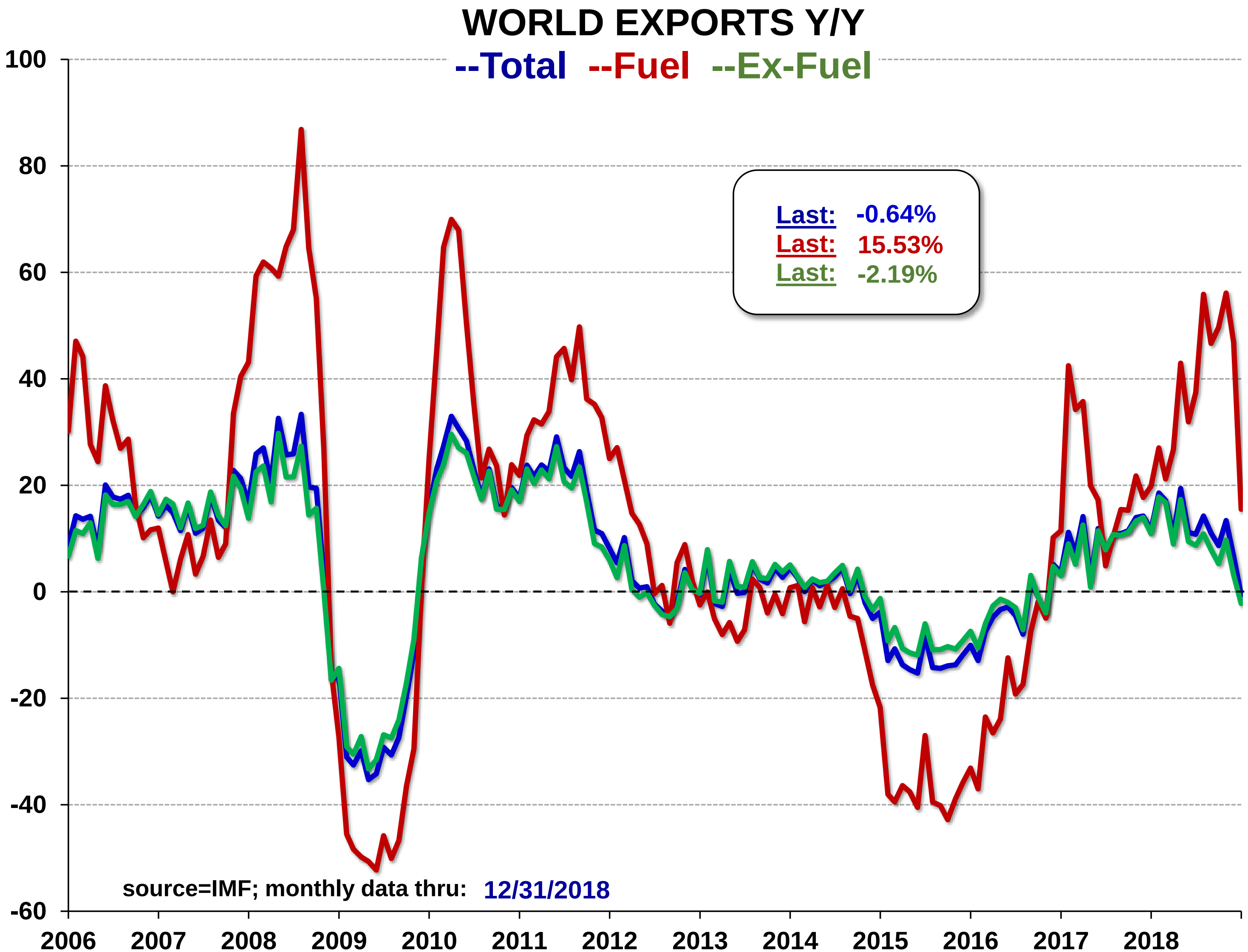
As a reminder: majority of IP gain since the recession has been with Energy & Autos.
Excluding Energy component, IP is -5% below December 2007 peak.



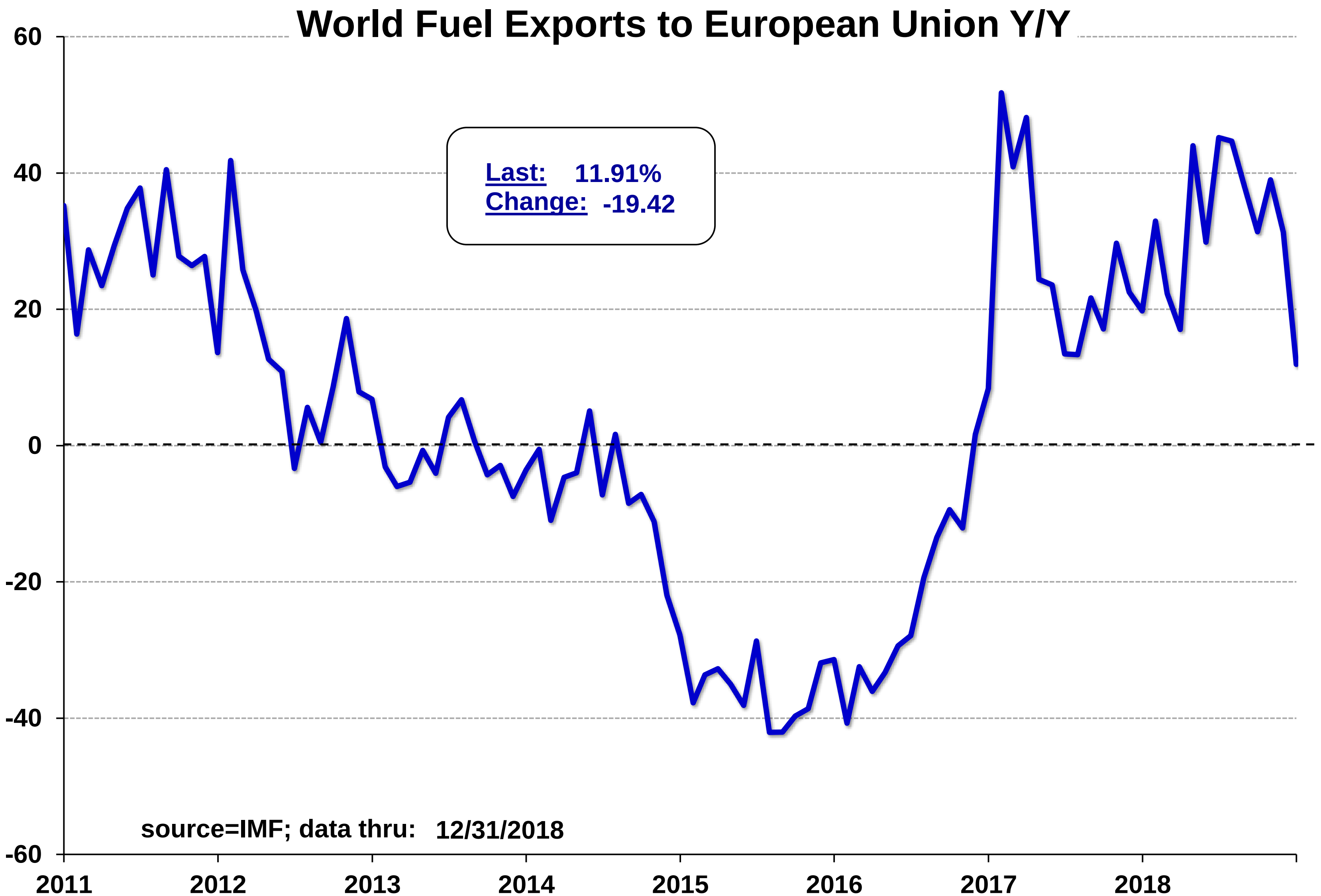
January Durable Goods Orders report showed nice bump in Machinery Orders. Meanwhile, February Machinery Industrial Production posts biggest 1-month drop since June 2015. As such, we would expect some give-back to the Machinery Order data at next update.



On the heels of December World Trade Volume data turning negative (-1.4% y/y, a recession level reading) comes the December IMF World Exports data which confirms the weak trend: Total Exports turn negative y/y: -0.64%.



Growth slowing in Eurozone? World Fuel Exports to EU tumble to lowest since Jan. 2017



World Exports to China turn negative y/y…-3.2%

Even excluding Fuel, China slowdown is apparent…

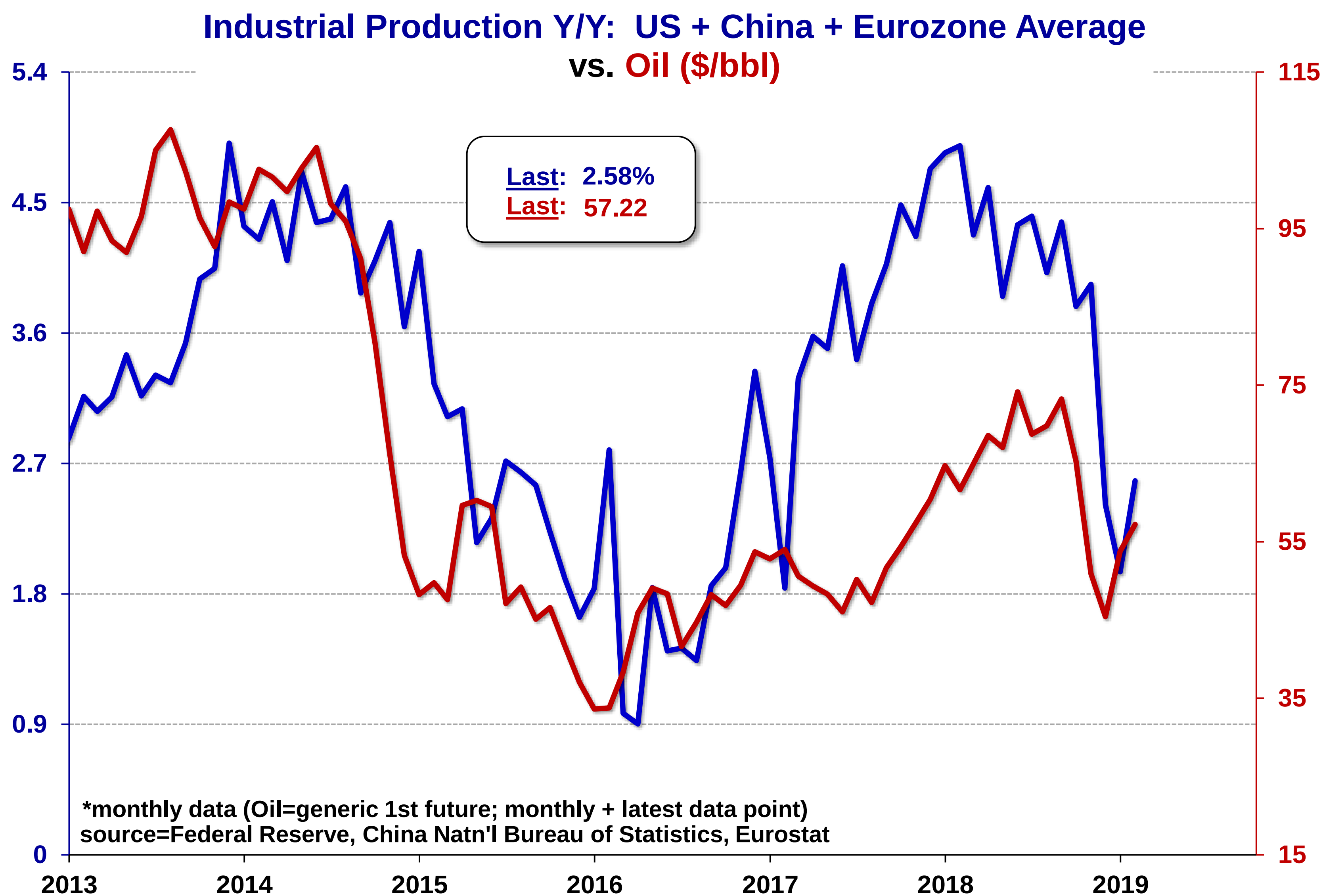
China Auto Sales tumble most since Feb. 2018 (-37.4% m/m) to lowest level since Feb. 2013

China Auto Sales down 5 months in a row on Y/Y basis

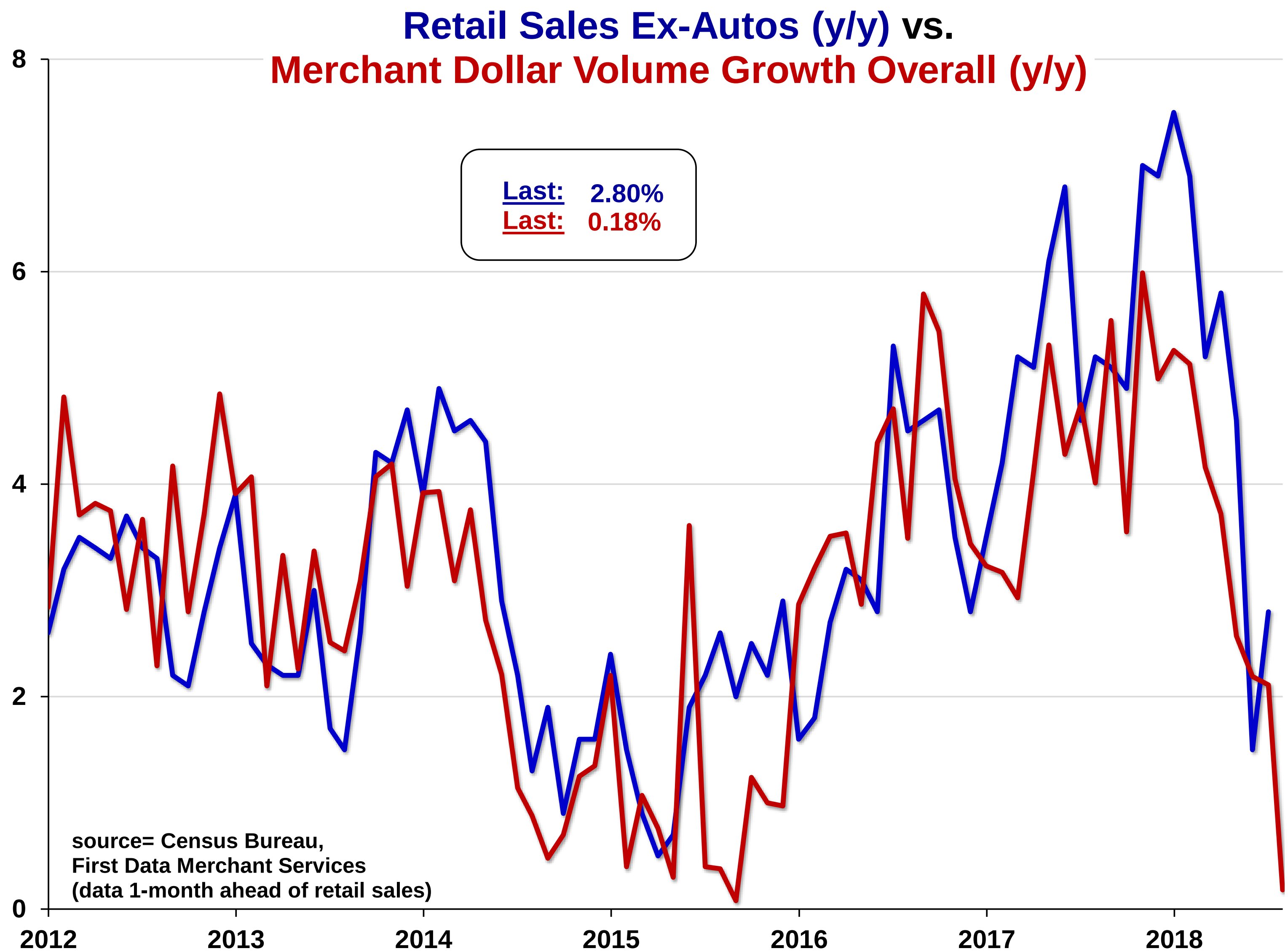
February China Industrial Production:

5.3% y/y (lowest since March 2009) vs. expectations of 5.6%

Should growth indicators continue to weaken further, Oil certain to follow lower



Retail Sales set to disappoint again? Merchant Dollar Volume Growth would indicate so. Should Dollar Volume Growth turn negative, it would be a first in history of this series…which only goes back to 2012. (note: Merchant Dollar data is for February; Retail Sales data thru January)



When looking at just the Retail component of Dollar Volume Growth, we find biggest y/y drop on record at -1.2% (data only back to 2012).