US Economy and Credit Markets

Yields and Weekly Changes:

3 Mo. T-Bill:	1.554 (8.2 bps)	GNMA (30 Yr) 6% Coupon:	111-02/32 (2.73%)
6 Mo. T-Bill:	1.733 (10.6 bps)	Duration:	4.29 years
1 Yr. T-Bill:	1.876 (1.0 bps)	Bond Buyer 40 Yield:	3.99 (-01 bps)
2 Yr. T-Note:	2.073 (-6.8 bps)	Crude Oil Futures:	59.20 (-6.25)
3 Yr. T-Note:	2.288 (-3.5 bps)	Gold Spot:	1,316.65 (-16.74)
5 Yr. T-Note:	2.543 (-4.5 bps)	Merrill Lynch High Yield Indices:	
10 Yr. T-Note:	2.851 (1.0 bps)	U.S. High Yield:	6.60 (33 bps)
30 Yr. T-Bond:	3.160 (7.5 bps)	BB:	5.19 (19 bps)
		B:	6.72 (29 bps)

The equity markets were not alone in experiencing a volatility spike last week. The CBOE/CBOT 10-year U.S. Treasury Note Volatility IndexSM, which measures the expected volatility of the price of 10-year Treasury Note futures, was up 29.02%, to 5.70, over the previous 5 trading days. This was the index's highest level since March 15, 2017 and represents a substantial increase from its all-time low of 2.09 which was reached in July of 2017. With both Japan and China reducing exposure to U.S. government bond, and cautious demand at the latest auction of 10- and 30-year debt, bond markets could have expected yields to rise over the past week but uncertainty in equity markets helped buoy prices in, what is seen as, the world's safest instrument. Newly sworn in Federal Reserve Chairman Jerome Powell will be closely watched as he begins his term and markets have recently started to price in the possibility of up to 4 rate hikes in 2018, according to federal funds futures. Oil fell every one of last week's five trading days to close below 60 for the first time this year as concerns of U.S. energy and exploration companies flooding the world with crude oil weighed on prices. Major economic reports (related consensus forecasts, prior data) for the upcoming week include Wednesday: February 9 MBA Mortgage Applications (N/A, 0.7%), January Retail Sales Advance MoM (.2%, .4%) and January CPI MoM (0.3%, 0.1%); Thursday: February 10 Initial Jobless Claims (228k, 221k), February Empire Manufacturing (18, 17.7), January PPI Final Demand MoM (0.4%, -0.1%) and January Industrial Production MoM (0.2%, 0.9%); Friday: January Housing Starts (1,230K, 1,192K) and February preliminary University of Michigan Sentiment (95.5, 95.7).

US Equities

Weekly Index Performance:		Market Indicators:	
DJIA:	24,190.90 (-5.08%)	Strong Sectors:	Utilities, Materials,
S&P 500:	2,619.55 (-5.10%)		Real Estate
S&P Midcap:	1,820.93 (-5.03%)	Weak Sectors:	Energy, Financials,
S&P Smallcap:	902.80 (-4.30%)		Telecom Services
NASDAQ Comp:	6,874.49 (-5.01%)	NYSE Advance/Decline:	583 / 2,518
Russell 2000:	1,477.84 (-4.47%)	NYSE New Highs/New Lows:	60 / 791
		AAII Bulls/Bears:	37.0% / 35.0%

Equities plunged last week as the S&P 500 Index fell 5.10% pushing the index into negative territory for the year. Since the index reached a new closing high of 2,872.87 on January 26, it has fallen 8.72%. Monday's return of -4.10% and Thursday's -3.74% are the two worst days of trading in 2018 as the index had its worst week since early January 2016. The S&P 500 Index YTD return stands at -1.84%. After months of low volatility in equity markets, the CBOE Volatility Index (VIX) spiked to a closing high of 37.32 on Monday. All sectors posted losses last week with the S&P 500 Energy Index taking on the most damage with a -8.15% return. Crude oil prices had their worst week since January 2016, declining 9.55% and closing at $59.20 per barrel. The United States economy appears healthy and is showing many positive signs such as a low unemployment rate, increasing payroll data, high consumer sentiment, and a continued trend in declining initial jobless claims. US initial jobless claims of 221K were lower than the consensus estimate of 232K and the previous week's 230K. Wages are also on the rise as the US Average Hourly Earnings (Y/Y%) increased to a pace not seen since mid-2009. While workers welcome increasing wages, this simultaneously raises concerns of increasing inflation along with increasing interest rates which could cause a compressing effect on future corporate earnings. The best performing stock for the week in the S&P 500 Index was **TripAdvisor Inc.**, an online travel research company that aggregates reviews on lodging. The stock returned 11.53% amid speculation that the company was a possible takeover target. **Wells Fargo & Company**, one of the largest US diversified banks, suffered heavily last week with a -12.39% return. On Monday, the Federal Reserve responded to the bank's 2016 fake accounts scandal by setting limits on their ability to grow their assets past $1.95 trillion until a new corporate governance plan is submitted and the Fed demanded four new board members be added by the end of the year.