US Economy and Credit Markets

Yields and Weekly Changes:

3 Mo. T-Bill:	0.04 (+01 bps)	GNMA (30 Yr) 6% Coupon:	111-31/32 (1.68%)
6 Mo. T-Bill:	0.07 (unch.)	Duration:	3.77 years
1 Yr. T-Bill:	0.10 (unch.)	30-Year Insured Revs:	141.0% of 30 Yr. T-Bond
2 Yr. T-Note:	0.25 (+01 bps)	Bond Buyer 40 Yield:	4.17 (+06 bps)
3 Yr. T-Note:	0.41 (+02 bps)	Crude Oil Futures:	95.93 (-0.11)
5 Yr. T-Note:	0.89 (+06 bps)	Gold Futures:	1386.60 (+21.90)
10 Yr. T-Note:	2.00 (+05 bps)	Merrill Lynch High Yield Indices:	
30 Yr. T-Bond:	3.17 (+01 bps)	U.S. High Yield:	6.13% (+06 bps)
		BB:	4.65% (+08 bps)
		B:	6.23% (+07 bps)

Treasuries declined this week while investors speculated that the Federal Reserve might end its monetary-stimulus quantitative easing program as the economy continues to improve. Yields were higher on Monday and the April Chicago Fed National Activity Index was reported at -.53. On Tuesday, yields fell and Treasuries inched higher ahead of anticipated release of Fed minutes and economic commentary by Ben Bernanke the next day. On Wednesday, Treasuries traded higher early in the day when April Existing Home Sales missed expectations, rising only .6% to 4.97M against expectations of a 1.4% increase. In the afternoon, however, Ben Bernanke gave prepared remarks before Congress and said that the Federal Reserve may reduce asset purchases in the next few meetings, causing Treasuries to fall sharply. On Thursday the March House Price Index rose 1.3%, beating expectations and April New Home Sales were reported to rise 2.3% to 454K, beating estimates for a 1.9% increase. Strong demand at a TIPS auction where investors bought about 70% of $13B auctioned also kept demand for Treasuries in place. Reports on Friday showed that Durable Goods Orders rose 3.3% in April after declining -5.9% in March, while the highest yields on 10 year Treasuries since mid-March enticed investors to buy the securities, sending yields down slightly. Major economic reports (and related consensus forecasts) for the upcoming holiday shortened week include: Tuesday: May Consumer Confidence (71), March S&P/Case-Shiller Home Price Index (147.48); Thursday: Q1 S GDP (Annualized) (2.5%), Q1 Personal Consumption (3.3%), and April Pending Home Sales (+1.5% MoM); Friday: April Personal Income (.1%) and Personal Spending (0%), May Chicago PMI (50), May U. of Michigan Confidence (83.7).

US Stocks

Weekly Index Performance:

DJIA:	15,303.10	(-0.3%)
S&P 500:	1,649.60	(-1.1%)
S&P MidCap:	1,188.07	(-1.9%)
S&P Small Cap:	553.18	(-1.3%)
NASDAQ Comp:	3,459.14	(-1.1%)
Russell 2000:	984.28	(-1.2%)

Market Indicators:

Strong Sectors:	Health Care, Energy, Consumer Staples
Weak Sectors:	Utilities, Telecom, Materials
NYSE Advance/Decline:	1,089/ 2,077
NYSE New Highs/New Lows:	851/ 81
AAII Bulls/Bears:	49.0%/ 21.6%

Equities fell for the week, marking their first weekly loss in a month, over concern the Federal Reserve will taper its stimulus effort if unemployment improves. In addition to fears of reduced monetary stimulus, investors were disappointed by a weak Chinese Purchasing Managers Index number, which contracted for the first time in 7 months. The Japanese market was hit especially hard from the Chinese manufacturing news, dropping 4.7% for the week. However, not all news was bad as U.S. durable goods orders jumped 3.3% in April led by strength in residential construction and autos. In earnings news, **Toll Brothers Inc.**, the largest U.S. luxury-home builder, booked their highest quarterly orders in seven years as demand for new homes continues to recover. Despite weak PC sales, **Hewlett-Packard Co.** gained over 13% for the week due to service margins benefiting from restructuring. **Carnival Corp.** declined after lowering fiscal year guidance due to price cuts initiated after a number of mishaps aboard their ships. In other stock news, **JPMorgan Chase & Co.** gained after a failed measure to separate the roles of chairman and CEO. Both **SAKS Inc**. and **Lender Processing Services, Inc.** jumped on acquisition rumors. Looking ahead to next week, investors will shift their focus back to economic data as most companies have reported earnings. The Case-Shiller Home Price Index and the U.S. revised 1Q GDP will be key economic data points. Looking longer term, an accommodative Fed, strong corporate balance sheets, increasing business investment, and a resilient consumer could lead the market to continue to hit all-time highs as valuations are still reasonable.