US Economy and Credit Markets

Yields and Weekly Changes:

3 Mo. T-Bill:	0.18 (-05 bps)	GNMA (30 Yr) 6% Coupon:	113-03/32 (2.00%)
6 Mo. T-Bill:	0.45 (-06 bps)	Duration:	3.87 years
1 Yr. T-Bill:	0.65 (-01 bps)	Bond Buyer 40 Yield:	4.22 (unch.)
2 Yr. T-Note:	0.95 (+08 bps)	Crude Oil Futures:	34.73 (-0.89)
3 Yr. T-Note:	1.28 (+12 bps)	Gold Futures:	1066.50 (-10.70)
5 Yr. T-Note:	1.68 (+12 bps)	Merrill Lynch High Yield Indices:	
10 Yr. T-Note:	2.21 (+08 bps)	U.S. High Yield:	9.05% (+18 bps)
30 Yr. T-Bond:	2.92 (+05 bps)	BB:	6.62% (+16 bps)
		B:	9.08% (+18 bps)

Treasury yields rose significantly over the course of the week as the Federal Reserve decided to increase interest rates above the 0.25 upper bound for the first time since 2008. Yields rose on both Monday and Tuesday as it became more evident that the Fed would increase interest rates on Wednesday's announcement, especially after Tuesday's inflation reading was high enough to support an increase. The rise in yields was not as dramatic as it could have been as many expected the Fed to continue a dovish tone during the rate hike. When the announcement came on Wednesday that the Fed would increase the upper bound on interest rates to 0.50, yields only increased slightly as it was described as, "the most well telegraphed and most dovish hike in history," according to one chief investment strategist. There was also housing and manufacturing data on Wednesday that was viewed as strong enough to keep up the rate hike. Yields then pulled back the last two days of the week as investors scooped up U.S. debt over foreign debt on Thursday and equities dropped significantly on Friday, causing investors to seek the safety of Treasuries. Oil was volatile over the week but ultimately ended down 2.5%. Major economic reports (and related consensus forecasts) for the upcoming holiday-shortened week include: Tuesday: 3Q Annualized GDP (1.9%), 3Q Personal Consumption, November Existing Home Sales (5.35M); Wednesday: December 18 MBA Mortgage Applications, November Personal Income, November Personal Spending, November P Durable Goods Orders (-0.7%), November New Home Sales (500,000, 1.0% MoM), December U. of Michigan Sentiment (91.8); Thursday: December 19 Initial Jobless Claims.

US Equities

Weekly Index Performance:		Market Indicators:	
DJIA:	17,128.55 (-0.78%)	Strong Sectors:	Utilities, Telecom,
S&P 500:	2,005.55 (-0.31%)		Health Care
S&P Midcap:	1,375.27 (-0.97%)	Weak Sectors:	Info. Tech., Materials
S&P Smallcap:	662.68 (-0.49%)		Energy
NASDAQ Comp:	4,923.08 (-0.19%)	NYSE Advance/Decline:	1,517 / 1,721
Russell 2000:	1,121.02 (-0.20%)	NYSE New Highs/New Lows:	78 / 793
		AAII Bulls/Bears:	23.9% / 39.4%

U.S. equity markets retreated slightly this week with the S&P 500 returning -0.3%. Oil had a volatile week as crude rose to $37.35 on Tuesday, only to fall to $34.73 as of Friday, which is a low for the year. The Federal Reserve topped most newsfeeds this week, when they raised the interbank lending rate 0.25%, the first raise since 2006. On top of the current raise, the Fed indicated there would be "gradual adjustments in the stance of monetary policy" and stated positive economic results would drive future rate increases. This marked a significant point in the business cycle following the great recession, after nearly a decade of quantitative easing and other financial measures, the Fed finally thinks the U.S. economy is strong enough to absorb slightly higher interbank lending rates. In other news, Martin Shkreili, a self-applauding pharmaceutical executive who was under significant criticism for his alleged price gouging of vital healthcare drugs, was detained on securities fraud this week. FBI agents arrested Shkreili around 6:30am from his Midtown Manhattan apartment Thursday. Shkreili pled not guilty and was freed on $5m bond. Turning to company news, **FedEx Corp.** announced their quarterly results Wednesday, the parcel carrier beat expected revenues and earnings and the share price rallied 2% as a result. Then FedEx fell 3% on Friday, after **Amazon Inc.** revealed they are considering leasing freighter jets to help in their delivery service, potentially encroaching on FedEx shipping volume. **Oracle Corp.** sank over 5% on Wednesday, after the tech giant missed analyst revenue expectations for the third straight quarter. Solar energy companies shot up this week, after it was revealed Congress extended solar tax credits in their new omnibus spending bill. As a result, **Solar City Corp.** was up 53.6%, **SunPower Corp.** was up 33% and **First Solar** was up 14.7%. Cruise lines had a positive week, **Carnival Corp.** rallied over 3.4% after announcing advanced bookings were well ahead of last year. Carnival's positive news also helped to hoist **Royal Caribbean Cruises Ltd.** over 2% on Friday, and over 4.7% for the week. Despite recent turmoil in domestic equity markets, we remain positive on equities in the long-run. While in the short-run interest rate hikes from the Fed has increased volatility, in the long-run the Fed still believes the U.S. economy is strong enough for higher interest rates.