US Economy and Credit Markets

Yields and Weekly Changes:

3 Mo. T-Bill:	0.32 (+05 bps)	GNMA (30 Yr) 6% Coupon:	114-22/32 (0.57%)
6 Mo. T-Bill:	0.45 (+02 bps)	Duration:	3.94 years
1 Yr. T-Bill:	0.63 (+05 bps)	Bond Buyer 40 Yield:	3.89 (+07 bps)
2 Yr. T-Note:	0.84 (+08 bps)	Crude Oil Futures:	49.81 (+1.57)
3 Yr. T-Note:	0.98 (+11 bps)	Gold Spot:	1,248.90(-64.4)
5 Yr. T-Note:	1.26 (+11 bps)	Merrill Lynch High Yield Indices:	
10 Yr. T-Note:	1.73 (+13 bps)	U.S. High Yield:	6.50% (-09 bps)
30 Yr. T-Bond:	2.46 (+15 bps)	BB:	4.83% (-05 bps)
		B:	6.54% (-10 bps)

Yields rose last week due to upbeat releases on manufacturing and service sectors which have caused investors to become more optimistic about the U.S. economy. Wednesday's trade balance report showed the trade deficit came in slightly larger than consensus expectations for August, with both imports and exports increasing. The September ISM manufacturing index beat expectations and showed a return to growth in manufacturing activity after August's surprise decline. The two most forward looking measures, new orders and production, both jumped in September which indicate continued growth in the months ahead. Friday's nonfarm payrolls report for September fell below expectations, with manufacturing and government payrolls being the primary factor for the decline. The unemployment rate for September came in slightly above consensus but was primarily due to a 444,000 gain in labor force, which is up by more than 3 million in the past year, the largest increase since 2006 and larger than almost any 12-month period in the late 1990s. Major economic reports (and related consensus forecasts) for the upcoming week include: Tuesday: September Monthly Budget Statement ($27.2b); Wednesday: October 7th MBA Mortgage Applications; Thursday: October 8th Initial Jobless Claims (254k), October 9th Bloomberg Consumer Comfort; Friday: September Retail Sales Advance (0.6% MoM), September PPI Final Demand (0.2% MoM).

US Equities

Weekly Index Performance:		Market Indicators:	
DJIA:	18,240.49 (-0.31%)	Strong Sectors:	Financials, Energy,
S&P 500:	2,153.74 (-0.60%)		Information Technology
S&P Midcap:	1,533.96 (-1.16%)	Weak Sectors:	Utilities, Materials,
S&P Smallcap:	749.06 (-1.02%)		Telecommunication Services
NASDAQ Comp:	5,292.41 (-0.32%)	NYSE Advance/Decline:	1,076 / 2,047
Russell 2000:	1,236.56 (-1.18%)	NYSE New Highs/New Lows:	222 / 56
		AAII Bulls/Bears:	28.8% / 27.9%

Last week the S&P 500 Index started October and the fourth quarter of 2016 in negative territory declining 60 basis points, following the previous three weeks of gains. Monday opened the new quarter down 31 basis points on some weak economic news. August construction spending fell though expectations were for a small increase and the Markit US Manufacturing PMI number came in at its lowest level since June 2016. Tuesday continued the trend declining another 49 basis points with futures markets implying that investors' expectations of a Federal Reserve rate hike by December increased relative to the previous week. Comments from regional Fed presidents drove these expectations, amplifying moves in rate-sensitive equities. The financials sector was the only sector with a gain. Wednesday turned the momentum with the S&P 500 Index returning 0.47%. The September ISM Non-Manufacturing Composite reported its highest level since October 2015 and August factory orders also increased. Thursday showed stocks down early, but rebounded close to even for a 5 basis point decline. Materials stocks were the big winners for the day while the health care sector led the losers. US initial jobless claims of 249K were lower than the consensus estimate of 256K and lower than the previous week's 254K. Stocks opened down on Friday as the S&P 500 Index tried to bounce back later in the trading day, but closed with a -0.32% return. Materials and industrials showed the largest declines with most sectors in negative territory. Crude oil closed the week at $49.81 a barrel, increasing 3.25% from the previous week's close. Nine of the ten economic sectors had negative performance for the week. The finanicals sector was the best performing sector with a 1.62% return. The energy and information technology sectors followed with -0.01% and -0.06% returns, respectively. The utilities sector's -3.81% return was the worst performance of all the sectors and was followed by telecommunication services and materials which returned -2.77% and -1.81%, respectively. **The Gap Inc.**, an international specialty retailer operating retail and outlet stores, turned in the best performance in the S&P 500 Index with a 19.27% gain. Same store sales at The Gap Inc.'s Old Navy stores increased higher than expected giving a boost to the retail stock on Friday. The next two best performers were **Signet Jewelers Ltd.** and **Netflix Inc.** with returns of 7.43% and 6.36%, respectively.