## US Economy and Credit Markets

| | | | |
|---|---|---|---|
| 3 Mo. T-Bill: | 0.34 (+02 bps) | GNMA (30 Yr) 6% Coupon: | 114-18/32 (1.27%) |
| 6 Mo. T-Bill: | 0.51 (+06 bps) | Duration: | 3.90 years |
| 1 Yr. T-Bill: | 0.56 (-02 bps) | Bond Buyer 40 Yield: | 3.78 (+04 bps) |
| 2 Yr. T-Note: | 0.78 (-01 bps) | Crude Oil Futures: | 45.88 (+1.44) |
| 3 Yr. T-Note: | 0.92 (+01 bps) | Gold Spot: | 1,330.70 (+7.50) |
| 5 Yr. T-Note: | 1.22 (+03 bps) | Merrill Lynch High Yield Indices: | |
| 10 Yr. T-Note: | 1.68 (+07 bps) | U.S. High Yield: | 6.77% (+01 bps) |
| 30 Yr. T-Bond: | 2.40 (+12 bps) | BB: | 4.92% (+04 bps) |
| | | B: | 6.75% (+04 bps) |

Yields rose sharply on Thursday as the ECB's Mario Draghi showed no intention of expanding bond purchases from current levels. Two weeks ago, on August 26, his American counterpart Janet Yellen had noted that "the case for an increase in the federal funds rate has strengthened in recent months" but since then, there has been a relatively disappointing payroll report, a decline registered in the ISM manufacturing report and a decline registered in the ISM non-manufacturing report. As a result, the probabilities of a US Federal Reserve September rate hike have been very volatile and despite Chair Yellen's hawkish Jackson Hole talk; implied probabilities are currently only forecasting a 60% chance of a rate increase by year's end. Oil surged on Thursday, as data reflected a sharp decline in inventories which experts attribute to Hurricane Hermine delaying shipments from reaching US ports, before giving much of the gain back on Friday. As alluded to above, Tuesday's ISM non-manufacturing index report disappointed as it registered a decline to 51.4 from July's 55.5. A reading above 50 still signals expansion and this was the 79th consecutive month of expansion registered in the service sector. Thursday's Jobless Claims report showed filings for unemployment benefits dropped and the unemployment held firm at 5%. Major economic reports (and related consensus forecasts) for the upcoming week include: Wednesday: prior week MBA Mortgage Applications; Thursday: August Retail Sales (-.1%, -.1%), prior week Initial Jobless Claims (265K, +6K), August PPI Final Demand (.1%, +.5%), and August Industrial Production (-.2%, -.9%); Friday: August CPI (.1%, +.1%) and September's preliminary University of Michigan sentiment reading (91, +1.2).

## US Equities

| Weekly Index Performance: | | | Market Indicators: | |
|---|---|---|---|---|
| DJIA: | 18,085.45 | (-2.15%) | Strong Sectors: | Energy, Health Care, Financials |
| S&P 500: | 2,127.81 | (-2.36%) | | |
| S&P Midcap: | 1,528.31 | (-3.16%) | Weak Sectors: | Consumer Staples, Materials, Consumer Discretionary |
| S&P Smallcap: | 739.97 | (-2.85%) | | |
| NASDAQ Comp: | 5,125.91 | (-2.35%) | NYSE Advance/Decline: | 631/ 2,499 |
| Russell 2000: | 1,219.21 | (-2.58%) | NYSE New Highs/New Lows: | 456/ 30 |
| | | | AAII Bulls/Bears: | 29.7% / 28.5% |

Stocks hovered near record-highs during the holiday-shortened week before tumbling on Friday amid concerns about less accommodative central bank policy. Boston Fed President Eric Rosengarten commented on Friday that waiting too long to increase rates threatens to overheat the U.S. economy and poses risks to financial stability. In addition to hawkish comments from a Fed President, European Central Bank President Mario Draghi decided to leave the ECB's current stimulus plan unchanged, disappointing many investors. Defensive stocks, the darlings of the first half of 2016, saw share prices fall further than the S&P 500 on higher rate concerns as many defensive names boast high dividend yields. In addition, defensive stock valuations appear stretched compared to the broader market and flows are starting to reverse away from some of the most popular funds. In stock news, **HD Supply Holdings Inc.** fell following disappointing earnings and a guidance cut due to execution issues, further supply chain investment and end market weakness. **Western Digital Corp.** raised guidance for the first quarter on improving product mix from the acquisition of **SanDisk Corp**. Shares of **Tractor Supply Company** tumbled after lowering full-year guidance, citing headwinds for the energy and agriculture end markets. Looking ahead to next week, retail sales and industrial production will be key economic data points. Looking longer term, Friday's sell-off could be the start of increased volatility as the market has lacked large swings in the recent past. Quality companies trading at reasonable valuations could be attractive if volatility persists.