US Economy and Credit Markets

Yields and Weekly Changes:

3 Mo. T-Bill:	1.06 (+02 bps)	GNMA (30 Yr) 6% Coupon:	113-03/32 (1.96%)
6 Mo. T-Bill:	1.22 (+03 bps)	Duration:	4.09 years
1 Yr. T-Bill:	1.33 (+04 bps)	Bond Buyer 40 Yield:	4.02 (-01 bps)
2 Yr. T-Note:	1.50 (+02 bps)	Crude Oil Futures:	49.29 (-2.38)
3 Yr. T-Note:	1.64 (+02 bps)	Gold Spot:	1,276.68 (-3.07)
5 Yr. T-Note:	1.96 (+02 bps)	Merrill Lynch High Yield Indices:	
10 Yr. T-Note:	2.36 (+03 bps)	U.S. High Yield:	5.99 (+04 bps)
30 Yr. T-Bond:	2.89 (+03 bps)	BB:	4.52 (+07 bps)
		B:	6.11 (+05 bps)

Treasury prices dropped over the course of the week on speculation whether or not the Federal Reserve would increase rates in December and who would replace Fed Chairwoman Janet Yellen when her term is up in February. Tax cuts failed to gain steam during the previous week, however, on Thursday the House of Representatives passed a resolution which was seen as a necessary step towards cutting taxes. Now that tax cuts appear to be back on the table for President Trump's pro-growth agenda investors speculated that the Fed would be more likely to raise rates sooner. This news, along with a strong reading in ISM Manufacturing, Construction Spending, ISM Non-Manf. Composite and Factory Orders caused the market implied probability of a rate increase at the December Fed meeting to increase from 69.5% to 78.3%. Nonfarm Payrolls dropped 33k on Friday but the unemployment rate also dropped from 4.4% to 4.2%. It is widely speculated that President Trump will replace Janet Yellen as the head of the Fed in February and Politico reported that Treasury Secretary Steven Mnuchin favors Fed Gov. Jerome Powell on Tuesday. While Powell is viewed as more dovish than another leading candidate, former Fed Gov. Kevin Warsh, both are expected to be much more hawkish than Yellen. Somewhat mitigating the rise in rates were a couple of events that led investors to demand the perceived safety of Treasuries including the largest mass shooting in modern American history in Las Vegas to begin the week and a possible Catalan independence vote that could lead to more turmoil in Spain and the European Union. Major economic reports (related consensus forecasts; prior data) for the upcoming week include Wednesday: October 6 MBA Mortgage Applications (-0.4%); Thursday: September PPI Final Demand (0.4%, 0.2% MoM; 2.6%, 2.4% YoY), October 7 Initial Jobless Claims (252k, 260k); Friday: September CPI (0.6%, 0.4% MoM; 2.3%, 1.9% YoY), September Retail Sales Advance (1.6%, -0.2% MoM), October Prelim. University of Michigan Sentiment (95.0, 95.1).

US Equities

Weekly Index Performance:		Market Indicators:	
DJIA:	22,773.67 (+1.70%)	Strong Sectors:	Financials, Materials, Consumer Discretionary
S&P 500:	2,549.33 (+1.25%)		
S&P Midcap:	1,818.43 (+1.27%)	Weak Sectors:	Energy, Consumer Staples, Telecom Services
S&P Smallcap:	915.10 (+1.25%)		
NASDAQ Comp:	6,590.18 (+1.48%)	NYSE Advance/Decline:	1,754 / 1,307
Russell 2000:	1,510.22 (+1.32%)	NYSE New Highs/New Lows:	528 / 47
		AAII Bulls/Bears:	35.6% / 32.8%

Despite a weak jobs report, equities continued to move higher as financial shares led the rally for the week. Nonfarm payrolls fell by 33,000 in September, marking the first decline since 2010. In contrast, the unemployment rate fell to 4.2%, the lowest reading since 2001, and wages increased by 2.9% versus a year ago. However, the labor report was likely skewed by the effects of hurricanes Harvey and Irma. Bank stocks benefited from rising treasury yields, while dividend paying stocks trailed the broader market. Both **Ford Motor Co.** and **General Motors Co**. reported strong sales for September due to hurricane related car replacements and model year-end discounts. **PepsiCo, Inc.** reported another disappointing quarter with North American beverage sales declining 3% as many consumers aim to lower sugar and artificial sweeteners in their diet. **Netflix Inc**. gained over 9% for the week after the streaming giant announced a 10% price increase for its most popular service plan to help fund future content costs. Shares of **Celgene Corp.** fell on concerns new generic drugs may come to market and hurt sales of the biotech's cancer drugs. Turning to next week, earnings season starts for a number of U.S. banks, led by **JPMorgan Chase & Co.**, **Bank of America Corp.**, **Citigroup Inc.**, and **Wells Fargo & Co**. In addition, the minutes for the last FOMC policy meeting will be released, which may give a clearer picture of the likelihood of a December rate increase. Looking longer-term, S&P 500 EPS growth is expected to be only 3.6% in the 3rd quarter due to revisions within the insurance industry. However, analysts still expect double-digit S&P 500 EPS growth for 2017 and 2018. Despite rising valuations, continued strength in corporate profits creates the potential for further gains for equities.