US Economy and Credit Markets

Yields and Weekly Changes:

3 Mo. T-Bill:	1.427 (-1 bps)	GNMA (30 Yr) 6% Coupon:	111-04 (2.79%)
6 Mo. T-Bill:	1.617 (2.3 bps)	Duration:	4.08 years
1 Yr. T-Bill:	1.774 (0.2 bps)	Bond Buyer 40 Yield:	3.87 (0 bps)
2 Yr. T-Note:	2.065 (6.7 bps)	Crude Oil Futures:	63.37 (-0.93)
3 Yr. T-Note:	2.201 (8.5 bps)	Gold Spot:	1,331.84 (-5.80)
5 Yr. T-Note:	2.449 (10.3 bps)	Merrill Lynch High Yield Indices:	
10 Yr. T-Note:	2.659 (11.3 bps)	U.S. High Yield:	6.12 (2 bps)
30 Yr. T-Bond:	2.933 (8.4 bps)	BB:	4.72 (4 bps)
		B:	6.21 (-1 bps)

U.S. 10-year treasury yields hit their highest mark since September 2014 on Friday as investors focused on the threat of a government shutdown. Notes from the Beige Book indicated that the Fed views the U.S. economy as robust, but wage pressures are modest. Dallas Fed President Robert Kaplan said there could be more than three rate increases in 2018. Industrial production displayed a strong finish to 2017 by beating consensus expectations, increasing 0.9% in December versus the expected 0.5%. Housing starts fell 8.2% in December to a 1.192 million annual rate, below consensus expectations of 1.275 million, due to a decrease in construction in the south following Hurricanes Harvey and Irma. Ending the week the United States Congress grabbed headlines last week as Congressional leaders sought to pass a spending bill to keep the government from shutting down. Disagreements over immigration reform, most notably the Deferred Action for Childhood Arrivals policy and President Donald Trump's campaign-promised border wall, was the sticking point in the negotiations on Capitol Hill. The House passed a continuing resolution on Thursday evening, but the measure failed in the Senate and the government shutdown at midnight on Saturday. Major economic reports (related consensus forecasts, prior data) for the upcoming week include Wednesday: January 19 MBA Mortgage Applications (N/A, 4.1%), December Existing Home Sales (5.70m, 5.81m), January Preliminary Markit US Manufacturing PMI (55.0, 55.1); Thursday: January 20 Initial Jobless Claims (235k, 220k), December Preliminary Wholesale Inventories MoM (0.3%, 0.8%), December Leading Index (0.5%, 0.4%), December New Home Sales (675k, 733k); Friday: December Preliminary Durable Goods Orders (0.9%, 1.3%), Fourth Quarter GDP Annualized QoQ (3.0%, 3.2%).

US Equities

Weekly Index Performance:			Market Indicators:	
DJIA:	26,071.72	(+1.08%)	Strong Sectors:	Consumer Staples, Health Care, Info Tech
S&P 500:	2,810.30	(+0.88%)		
S&P Midcap:	1,979.20	(+0.68%)	Weak Sectors:	Energy, Industrials, Utilities
S&P Smallcap:	976.07	(+0.72%)		
NASDAQ Comp:	7,336.38	(+1.04%)	NYSE Advance/Decline:	1,364 / 1,696
Russell 2000:	1,597.63	(+0.36%)	NYSE New Highs/New Lows:	581 / 162
			AAII Bulls/Bears:	54.1% / 21.4%

A number of bank earnings and corporate reports sent the S&P 500 higher for the third consecutive week. Despite fears of a potential government shutdown, continued strong corporate profits and a synchronized global pickup in demand powered the Dow Jones Industrial Average past 26,000 for the first time. With roughly 10% of S&P 500 members reporting, earnings-per-share have increased by over 11% year-over-year. In bank earnings, **Citigroup Inc.** beat analyst expectations on better-than-expected consumer banking revenue and an improving efficiency ratio. Investors shrugged off write-downs for deferred tax assets as future tax rates are moving lower for America's largest banks. **Morgan Stanley** expects an effective tax rate as low as 22 percent for 2018 versus 31 percent in 2017, while **Bank of America Corp.** expects a 20 percent tax rate. Investment-banking climbed 19% for the largest banks and executives are optimistic about future deal flow due to a reduced corporate rate. In contrast, bond trading remains a headwind for banks as **Goldman Sachs Group Inc.**, the most affected bank, saw a 50% decline in fixed-income and commodity trading. Low volatility and historically low interest rates, even after a few small interest rate hikes, led to the decline. In tech news, shares of **International Business Machines Corp.** lost ground on weak margins, despite posting revenue growth for the first time in four years. Looking ahead to next week, earnings season will kick into full gear with a number of bellwethers reporting results. To keep the current market momentum, corporate profits will need to continue moving higher. The S&P 500's projected earnings growth is 10.8% for 2017 and 17.4% for 2018.