US Economy and Credit Markets

Yields and Weekly Changes:

3 Mo. T-Bill:	2.386 (4.4 bps)	GNMA (30 Yr) 6% Coupon:	105-13/32 (4.31%)
6 Mo. T-Bill:	2.533 (1.3 bps)	Duration:	4.11 years
1 Yr. T-Bill:	2.675 (-0.2 bps)	Bond Buyer 40 Yield:	4.11 (-7 bps)
2 Yr. T-Note:	2.711 (-7.6 bps)	Crude Oil Futures:	52.61 (+1.68)
3 Yr. T-Note:	2.713 (-8.7 bps)	Gold Spot:	1,249.31 (+28.79)
5 Yr. T-Note:	2.689 (-12.3 bps)	Merrill Lynch High Yield Indices:	
10 Yr. T-Note:	2.845 (-14.3 bps)	U.S. High Yield:	7.43 (+6 bps)
30 Yr. T-Bond:	3.140 (-15.0 bps)	BB:	5.94 (+5 bps)
		B:	7.78 (+6 bps)

Markets are digesting mixed views on how hawkish the Federal Reserve will be in 2019. The consensus expects one more hike to wrap up 2018, but 2019 expectations are vacillating as Mr. Powell was perceived making seemingly dovish remarks in November but last week New York Fed President John Williams, generally seen as a centrist on the governor's board, said that the Fed should continue to raise rates "over the next year or so." He cited the U.S. economy "continuing to grow nicely above-trend" as support for the Federal Reserve to continue tightening monetary policy. Fed Fund futures currently price in a probability of one hike in 2018, but of late they are pricing in an approximate 33% chance of no hikes in 2019 assuming one 2018 hike. The yield curve had an inversion of the 3- and 5-year yields during the week which has investors nervous that a 2- and 10-year inversion could be forthcoming. Of no doubt, the narrowing curve has weighed on Bank sentiment as net income margin is not expected to meaningfully improve without an increase on the longer-dated yields. Oil stalled its multi-week plunge to close Friday at $52.22 per barrel from a not so long-ago October price in excess of $75 per barrel. Also affecting markets was tariff talk between China and the United States. No resolution emerged, and tariffs will continue to generate uncertainty into 2019. Major economic reports (related consensus forecasts, prior data) for the upcoming week include: Tuesday: PPI final November demand (0.0%, 0.6%); Wednesday: prior week MBA Mortgage Applications and November CPI (0.0%, 0.3%); Thursday: Prior week Initial Jobless Claims (233K, 231K); Friday: November Retail Sales (0.2%, 0.8%), November Industrial Production (0.3%, 0.1%) and December preliminary Markit US Manufacturing PMI (55.1, 55.3).

US Equities

Weekly Index Performance:		Market Indicators:	
DJIA:	24,388.95(-4.44%)	Strong Sectors:	Utilities, Real Estate,
S&P 500:	2,633.08 (-4.55%)		Consumer Staples
S&P Midcap:	1,780.94 (-5.18%)	Weak Sectors:	Materials, Industrials
S&P Smallcap:	905.26 (-5.97%)		Financials
NASDAQ Comp:	6,969.25 (-4.90%)	NYSE Advance/Decline:	812 / 2,273
Russell 2000:	1,448.09 (-5.53%)	NYSE New Highs/New Lows:	124 / 827
		AAII Bulls/Bears:	37.9% / 30.5%

Equities had their worst week since March returning -4.5%. Trade news continues to dominate headlines and drive equity market returns. Over last weekend, U.S. President Trump and Chinese President Xi had productive trade talks at the G20 summit in Argentina. As a result, equity markets rallied last Monday on news the U.S. would maintain its current 10% tariffs for up to 90 days and China would work to reduce IP theft and their trade imbalance. The reprieve was short lived as the S&P traded down the rest of last week. Equity markets were closed on Wednesday for a National Day of mourning in honor of President George H.W. Bush passing away. **AutoZone Inc.** rallied 7.5% last week after reporting earnings and strong same store sales came in higher than analyst estimates. Homebuilding stocks continued to struggle after **Toll Brothers** reported their first decline in sales since 2014. Housing linked names like **Builders FirstSource Inc., United Rentals Inc.**, **Skyline Champion Corp.** and **AT Home Group Inc.** were all down over 10% last week. Financials were the worst performing sector last week. Silicon Valley Bank fell nearly 20% last week, as Walk Street is discounting the bank due to its large weight in technology loans. Insurance names **Brighthouse Financial Inc.** and **American International Group** along with financial services **Jefferies Financial Group Inc.** and **E-Trade Financial Corp.**, were all down over 10% as a more risk-off posture flowed through equity markets. Looking ahead to next week, U.K. has scheduled a meaningful Brexit vote and U.S. lawmakers should accelerate a government funding bill, but all eyes and ears will remain on U.S.-China trade relations, as rhetoric from both sides are most likely to move equity markets.