US Economy and Credit Markets

Yields and Weekly Changes:

3 Mo. T-Bill:	1.639 (4.9 bps)	GNMA (30 Yr) 6% Coupon:	109-00/32 (3.40%)
6 Mo. T-Bill:	1.844 (2.3 bps)	Duration:	4.29 years
1 Yr. T-Bill:	1.997 (2.6 bps)	Bond Buyer 40 Yield:	4.00 (unch.)
2 Yr. T-Note:	2.238 (4.8 bps)	Crude Oil Futures:	63.55 (+1.87)
3 Yr. T-Note:	2.387 (0.3 bps)	Gold Spot:	1,328.71 (-18.25)
5 Yr. T-Note:	2.618 (-1.1 bps)	Merrill Lynch High Yield Indices:	
10 Yr. T-Note:	2.866 (-0.9 bps)	U.S. High Yield:	6.48 (6 bps)
30 Yr. T-Bond:	3.155 (2.4 bps)	BB:	5.11 (3 bps)
		B:	6.58 (7 bps)

Treasury prices were mixed and mostly flat over the course of the week as the Federal Reserve released the minutes from the January meeting and amid uncertainty in the Italian election. The central bank's minutes were released Wednesday with comments that were read to be more "hawkish" by investors. The Fed saw muted risks of the economy overheating and that the outlook for future growth raises the risk for inflation, meaning that additional rate hikes during the year may be needed. Currently the dot plot suggests three rate hikes in 2018, but investors are speculating that there could be a fourth. However, investors are also speculating that there is a chance the populist euroskeptic party may be elected during Italy's March 4 election, which could lead to deadlock in parliament and threaten the prospects of economic reform. This caused investors to seek the perceived safety of Treasurys. Oil dropped about 3% over the week with an unexpected drop of U.S. crude oil inventories. Major economic reports (related consensus forecasts, prior data) for the upcoming week include: Monday: January New Home Sales (645k, 625k); Tuesday: January Preliminary Wholesale Inventories MoM (N/A, 0.4%), January Preliminary Durable Goods Orders (-2.5%, 2.8%), February Conf. Board Consumer Confidence (126.0, 125.4); Wednesday: February 23 MBA Mortgage Applications (N/A, -6.6%), 4Q Second GDP Annualized (2.5%, 2.6%), February Chicago Purchasing Manager (65.0, 65.7); Thursday: January Personal Income (0.2%, 0.4%), January Personal Spending (0.2%, 0.4%), February 24 Initial Jobless Claims (227k, 222k), February Final Markit US Manufacturing PMI (55.8, 55.9), January Construction Spending MOM (0.2%, 0.7%), February ISM Manufacturing (58.7, 59.1); Friday: February Final U. of Mich. Sentiment (99.0, 99.0).

US Equities

Weekly Index Performance:		Market Indicators:	
DJIA:	25,309.99 (+0.36%)	Strong Sectors:	Info Tech, Materials, Energy
S&P 500:	2,747.30 (+0.58%)		
S&P Midcap:	1,904.23 (+0.18%)	Weak Sectors:	Telecom, Cons Staples, Health Care
S&P Smallcap:	946.55 (+0.49%)		
NASDAQ Comp:	7,337.39 (+1.36%)	NYSE Advance/Decline:	1,708 / 1,355
Russell 2000:	1,549.19 (+0.38%)	NYSE New Highs/New Lows:	142 / 165
		AAII Bulls/Bears:	44.7% / 22.8%

After selling-off to begin the holiday-shortened week, stocks roared higher to finish the week in the green, as concerns subsided over the pace of future interest rate increases. Investors continue to weigh the accelerating pace of economic growth and another strong earnings season against the prospects of higher inflation and interest rates. In economic news, new-home construction for January reached the highest level since October 2016, buoyed by a strong labor market and consumer confidence. In earnings news, a number of consumer stocks reported results for the fourth quarter. Shares of **Walmart Inc**. tumbled after reporting weak margins and execution issues within its e-commerce business. In addition to a weak quarterly report, fiscal year earnings and margin guidance were reduced by management as the world's largest retailer increases wages and investments in online infrastructure. **Campbell Soup** shares also moved lower after a disappointing quarterly report as organic growth remains elusive and 2019 looks to be a transition year due to the integration of a large acquisition. Information technology was the best performing sector, led by strong gains from **Hewlett Packard Enterprise Co**. and **HP Inc**., after both names topped analyst expectations and raised future guidance. With around 90% of companies reporting, 74% of names have topped estimates, higher than the 70% average over the past four years. In addition to more companies beating expectations than normal, forecasts for earnings estimates remained relatively flat in the three months leading into earnings versus an average drop of 4% over the past four years, as executives normally talk down expectations to create a lower bar to beat. The implication is that companies not only beat at a higher rate but also overcame a higher bar in the fourth quarter. Looking ahead to next week, Federal Reserve Chairman Jerome Powell will testify before congress. Investors will be focused on any clues about the pace of interest rate hikes. While bond yields do have an impact on prices and can provide a headwind, improving fundamentals in the economy and corporate profits provide the opportunity for future market gains even if bond yields rise.