US Economy and Credit Markets

Yields and Weekly Changes:

3 Mo. T-Bill:	1.639 (0.0 bps)	GNMA (30 Yr) 6% Coupon:	109-01/32 (3.40%)
6 Mo. T-Bill:	1.834 (-1.0 bps)	Duration:	4.30 years
1 Yr. T-Bill:	2.038 (4.1 bps)	Bond Buyer 40 Yield:	4.00 (0 bps)
2 Yr. T-Note:	2.242 (0.4 bps)	Crude Oil Futures:	61.25 (-2.30)
3 Yr. T-Note:	2.396 (0.9 bps)	Gold Spot:	1,322.75 (-5.96)
5 Yr. T-Note:	2.628 (1.0 bps)	Merrill Lynch High Yield Indices:	
10 Yr. T-Note:	2.864 (-0.2 bps)	U.S. High Yield:	6.55 (7 bps)
30 Yr. T-Bond:	3.140 (-1.6 bps)	BB:	5.20 (9 bps)
		B:	6.66 (8 bps)

Investors fled into bonds on Thursday last week, as President Donald Trump announced plans to institute import tariffs on steel and aluminum of 25% and 10% respectively. U.S. Treasurys quickly reversed those gains on Friday as traders and strategists expressed worries about rising prices and inflation. The ISM Manufacturing Index rose to the highest level since 2004, coming in at 60.8 in February, well above the consensus expected 58.7. Generally speaking, levels higher than 50 signal expansion, while levels below 50 signal contraction. Federal Reserve Chairman Jerome Powell spent two days testifying before Congress last week, where he offered an upbeat view of the U.S. economy. In December, Fed officials projected that there would be three interest rate increases in 2018, but Chairman Powell's comments signaled that more hikes may be considered if the economy continued to expand. As a result, markets seem to be pricing in the possibility of four rate hikes in 2018. Major economic reports (related consensus forecasts, prior data) for the upcoming week include: Tuesday: January Final Durable Goods Orders (N/A, -3.7%), Factory Orders (-1.2%, 1.7%); Wednesday: March 2 MBA Mortgage Applications (N/A, 2.7%), February ADP Employment Change (195k, 234k), January Trade Balance (-$55.0b, -$53.1b); Thursday: March 3 Initial Jobless Claims (220k, 210k); Friday: February Change in Nonfarm Payrolls (200k, 200k), February Unemployment Rate (4.0%, 4.1%), January Final Wholesale Inventories MoM (0.7%, 0.7%).

US Equities

Weekly Index Performance:		Market Indicators:	
DJIA:	24,538.06 (-2.96%)	Strong Sectors:	Telecom, Info Tech, Consumer Staples
S&P 500:	2,691.25 (-1.98%)		
S&P Midcap:	1,878.61 (-1.29%)	Weak Sectors:	Materials, Industrials, Utilities
S&P Smallcap:	932.68 (-1.43%)		
NASDAQ Comp:	7,257.87 (-1.05%)	NYSE Advance/Decline:	938 / 2,134
Russell 2000:	1,533.17 (-1.00%)	NYSE New Highs/New Lows:	174 / 298
		AAII Bulls/Bears:	37.3% / 23.4%

Stocks dropped for the week after President Trump announced new steel and aluminum tariffs, instilling fears of a potential trade war, and Fed Chairman Mr. Powell reiterated to congress a gradual increase in short-term interest rates. Investors worry rising inflation from new tariffs and higher growth from the recent tax cuts could cause the Federal Reserve to move faster on raising short-term interest rates. In economic news, the labor market displayed further signs of tightening with initial jobless claims falling to 210,000, the lowest level since 1969. The industrials and materials sectors were the worst performing sectors as protectionist measures could cause rising input costs. In stock specific news, **Berkshire Hathaway Inc**. released its investor letter to shareholders. In the letter, Chairman and CEO Warren Buffett stated he does not see any companies worth buying at current valuations, but rather he favors returning capital through share buybacks. Shares of **Gap, Inc.** jumped after announcing better than expected comparable-store-sales with all three of its flagship brands reporting flat to positive growth for the first time since fiscal first quarter 2013. In contrast, **Lowe's Cos Inc.** announced disappointing results as weak gross margins drove a material earnings miss. Looking ahead to next week, Friday's unemployment report for February will be the key economic data point. The unemployment rate is expected to drop to 4% from 4.1% and wage growth is expected to come in at 2.8% year-over-year. Last month's strong uptick in wages sparked an increase in volatility and the market correction. Longer term, we continue to view the underlying fundamentals of the economy as the key driver of the stock market. If corporate profits remain strong, like the last two quarters, equities have room to run.