US Economy and Credit Markets

Yields and Weekly Changes:

3 Mo. T-Bill:	1.917 (1.0 bps)	GNMA (30 Yr) 6% Coupon:	107-16/32 (3.73%)
6 Mo. T-Bill:	2.058 (-4.4 bps)	Duration:	3.97 years
1 Yr. T-Bill:	2.303 (2.0 bps)	Bond Buyer 40 Yield:	4.00 (-01 bps)
2 Yr. T-Note:	2.547 (4.9 bps)	Crude Oil Futures:	65.06 (-0.68)
3 Yr. T-Note:	2.674 (4.1 bps)	Gold Spot:	1,278.94 (-19.23)
5 Yr. T-Note:	2.797 (1.4 bps)	Merrill Lynch High Yield Indices:	
10 Yr. T-Note:	2.921 (-2.6 bps)	U.S. High Yield:	6.40 (-10 bps)
30 Yr. T-Bond:	3.047 (-4.3 bps)	BB:	5.33 (-06 bps)
		B:	6.64 (-14 bps)

The Federal Reserve raised interest rates 25bps last week, but more focus seemed to be on the newfound frankness of the Chairman. He noted the “economy is doing very well” and that “there’s a lot to like” about low unemployment. Such phrases are not in keeping with his predecessor who favored longer press conferences and more nuanced communication. Mr. Powell also announced there will be a press conference following each meeting beginning in 2019, vs. the traditional schedule of one per quarter. This may be indicative of increased desire to have more flexibility regarding potential rate changes on a going forward basis. The Federal Reserve is projecting two more rate increases for the remainder of this year. On Thursday, Mr. Draghi of the European Central Bank announced that the ECB would halt bond purchases but keep interest rates unchanged at current record lows through at least summer of 2019. He declared the ECB has made “substantial” progress regarding inflation and that the euro-area economy is in a better situation but facing increased uncertainty. Major economic reports (related consensus forecasts, prior data) for the upcoming week include: Tuesday: May housing starts; Wednesday: May existing home sales (5.54M, 5.46M) and June 15 MBA mortgage applications; Thursday: May Leading Index (0.4%, 0.4%) and June 16 initial jobless claims (222K, 218K); Friday: June preliminary Markit US Manufacturing PMI (56.3, 56.4).

US Equities

Weekly Index Performance:		Market Indicators:	
DJIA:	25,090.48 (-0.84%)	Strong Sectors:	Utilities, Cons Disc, Cons Staples
S&P 500:	2,779.66 (+0.07%)		
S&P Midcap:	1,992.37 (-0.36%)	Weak Sectors:	Energy, Telecom, Financials
S&P Smallcap:	1,039.54 (+0.13%)		
NASDAQ Comp:	7,746.38 (+1.34%)	NYSE Advance/Decline:	1,301 / 1,772
Russell 2000:	1,683.91 (+0.72%)	NYSE New Highs/New Lows:	284 / 138
		AAII Bulls/Bears:	44.8% / 21.7%

Stocks were mixed for the week due to increased trade tensions with China and a slightly more hawkish stance by the Federal Reserve. The Trump administration enacted $50 billion in tariffs on Chinese exports to the U.S. In response, China plans to charge a 25% tariff on roughly the same dollar amount of goods from the U.S. Investors also digested a widely-expected rate increase on Wednesday. However, in a less expected move, the Fed increased their forecast from three rate hikes to four total for 2018 due to an uptick in inflation and low unemployment. In economic news, retail sales increased by 0.8% in May, which beat the median expectation of 0.4%. In stock news, **Tesla, Inc.** gained after the company announced it would lay off 9% of its workforce, in an effort to reduce future cash burn and make good on Elon Musk’s promise to earn a profit in the 2nd half of the fiscal year. A federal judge ruled in favor of **AT&T Inc.’s** planned acquisition of **Time Warner Inc**., rebuffing the Justice Department’s assertion the deal would be anti-competitive for the TV industry. The deal had far-reaching implications as the ruling could lead to multiple mergers within paid TV. **Comcast Corp**. increased their unsolicited bid for **Twenty-First Century Fox, Inc.** assets as they try to out-bid **Walt Disney Co**. and convince the **Twenty-First Century Fox, Inc.** board the deal will pass regulatory hurdles. Despite potential headwinds from trade wars and higher rates, the U.S. economy looks to be on strong footing and in better shape than foreign peers. While earnings season is nearly a month away, S&P 500 corporate profits are expected to show another strong quarter with nearly 20% EPS growth. Strong fundamentals have the potential to trump any increased geo-political risk or slight rise in risk premiums required by investors.