US Economy and Credit Markets

Yields and Weekly Changes:

3 Mo. T-Bill:	2.414 (2.0 bps)	GNMA (30 Yr) 6% Coupon:	105-14/32 (4.30%)
6 Mo. T-Bill:	2.502 (0.2 bps)	Duration:	4.02 years
1 Yr. T-Bill:	2.567 (0.4 bps)	Bond Buyer 40 Yield:	4.09 (unch.)
2 Yr. T-Note:	2.541 (4.7 bps)	Crude Oil Futures:	51.59 (3.63)
3 Yr. T-Note:	2.516 (4.1 bps)	Gold Spot:	1,290.25 (4.2)
5 Yr. T-Note:	2.529 (2.8 bps)	Merrill Lynch High Yield Indices:	
10 Yr. T-Note:	2.701 (3.3 bps)	U.S. High Yield:	7.33 (-40 bps)
30 Yr. T-Bond:	3.033 (5.2 bps)	BB:	5.76 (-35 bps)
		B:	7.72 (-42 bps)

On January 9, The Federal Reserve Board and the Federal Open Market Committee released the minutes of the Committee meeting held on December 18-19, 2018. In discussing financial markets for the intervening period, they noted increased volatility in asset prices from reduced risk-taking by investors. They cited China and United States trade, global growth outlook and Brexit negotiations as reasons for reduced risk taking. In review of the United States economic situation they indicated that labor market conditions continue to strengthen, industrial production continues to expand, household spending continues to increase but real residential investment declined further in the fourth quarter. Notably, the committee discussion saw the participants conclude that “the increased concerns about global growth, made the appropriate extent and timing of future policy firming less clear than earlier.” Last week’s Monday ISM non-manufacturing index reading registered a decline to 57.6 in December which was below expectations but still signaling expansion. Friday’s Consumer Price Index registered a 0.1% decline for the month of December as energy prices fell 3.5% for the month. “Core” CPI, which excludes food and energy, increased 0.2%. Major economic reports (related consensus forecasts, prior data) for the upcoming week include: Tuesday: January Empire Manufacturing (11.8, 10.9) and December final PPI Demand MoM (-0.1%, 0.1%); Wednesday: January 11 MBA Mortgage Applications (N/A, 23.5%) and December Retail Sales Advance MoM (0.1%, 0.2%); Thursday: January 12 Initial Jobless Claims (220K, 216K) and Friday: December Industrial Production MoM (0.2%, 0.6%) and University of Michigan January preliminary Sentiment (96.4, 98.3).

US Equities

Weekly Index Performance:		Market Indicators:	
DJIA:	23,995.95(2.42%)	Strong Sectors:	Industrials, Real Estate,
S&P 500:	2,596.26 (2.58%)		Cons. Discretionary
S&P Midcap:	1,763.62 (4.72%)	Weak Sectors:	Financials, Utilities
S&P Smallcap:	902.03 (4.62%)		Cons. Staples
NASDAQ Comp:	6,971.48 (3.45%)	NYSE Advance/Decline:	2,646 / 440
Russell 2000:	1,447.39 (4.84%)	NYSE New Highs/New Lows:	35 / 38
		AAII Bulls/Bears:	38.5% / 29.5%

Cooler heads prevailed in U.S. equity markets last week. With the backdrop of strong economic data, the S&P 500 was up 2.6%, while the VIX index (a popular volatility measure) fell to ~18.2 for the first time since early December. U.S./Chinese trade news was positive last week after high-level trade talks concluded, the first since the G20 summit last November. The recent talks went so well they spilled into a 3rd day and a joint statement on progress is expected next week. Tuesday, FOMC notes from their December meeting were released and several officials indicated that given “muted inflation pressures” the committee could “afford to be patient” on future rate hikes. The continued dovish comments from the committee have been well received by equity markets as the systemic rate raises of the last few years have given way to more dynamic rate decisions. **PG&E Corp.** spiraled down -28% last week after bankruptcy fears spiked after the beleaguered California utility saw their debt downgraded to junk by Standard & Poor’s. PG&E was cut from BBB- down five spots to B and remained on negative watch at the rating service. Later in the week, two of PG&E’s smaller natural gas suppliers also stopped shipments because of fears they wouldn’t be paid. **Netflix Inc.** was a top performing name after return 13.4% last week. Multiple analysts upgraded the streaming video provider ahead of next weeks expected announcement of 4th quarter results. **General Motors** and **Ford** were both up over 9% last week after GM said 2018 profits exceeded its expectations. **General Electric Co.** has been gaining momentum returning 8.6% last week on expectations that selling their Capital Aviation Service business could unlock ~$25b in cash and help stabilize their balance sheet. All told, as economic data remains strong, we remain bullish on U.S. equity markets.