US Economy and Credit Markets

Yields and Weekly Changes:

3 Mo. T-Bill:	0.043 (0.5 bps)	GNMA (30 Yr) 6% Coupon:	107-13/32 (3.96%)
6 Mo. T-Bill:	0.086 (1.0 bps)	Duration:	3.95 years
1 Yr. T-Bill:	0.249 (9.4 bps)	Bond Buyer 40 Yield:	3.45 (-2 bps)
2 Yr. T-Note:	0.587 (8.9 bps)	Crude Oil Futures:	66.26 (-1.89)
3 Yr. T-Note:	0.850 (4.9 bps)	Gold Spot:	1,783.29 (-19.30)
5 Yr. T-Note:	1.132 (-2.8 bps)	Merrill Lynch High Yield Indices:	
10 Yr. T-Note:	1.343 (-13.0 bps)	U.S. High Yield:	5.11 (-4 bps)
30 Yr. T-Bond:	1.673 (-14.9 bps)	BB:	4.08 (-3 bps)
		B:	5.61 (-7 bps)

Federal Reserve Chairman Jerome Powell surprised markets last week when he signaled that the Fed could tighten monetary policy earlier than expected given the strong economy and high inflation, adding it's probably time to stop using the word "transitory" to explain the recent surge in inflation. Powell also cited the risks that Omicron, the new coronavirus variant, could slow the labor market's recovery and intensify supply chain disruptions. The market now expects at least one rate hike by next July, earlier than the September 2022 hike expected before Powell's comments. The spread between 5 and 30-year Treasury yields also flattened to its lowest level since March 2020 on the comments. Friday's jobs report was mixed, showing U.S. job growth was well short of expectations in November but the labor force participation rate climbed to its highest level of the recovery. The unemployment rate also dropped to 4.2%, its lowest level since February 2020. The U.S. economy has now recovered 83% of the 22.4 million jobs lost in March and April of last year. Economic activity in the services sector notched its fifth record high of the year, with the ISM Services Index beating expectations in November. Major economic reports (related consensus forecasts, prior data) for the upcoming week include Tuesday: October Trade Balance (-$67.0b, -$80.9b); Wednesday: December 3 MBA Mortgage Applications (N/A, -7.2%); Thursday: December 4 Initial Jobless Claims (230k, 222k), October Final Wholesale Inventories MoM (2.2%, 2.2%); Friday: November CPI MoM (0.7%, 0.9%), December Preliminary U. of Mich. Sentiment (67.4, 67.4).

US Equities

Weekly Index Performance:		Market Indicators:	
DJIA:	34,580.08 (-0.76%)	Strong Sectors:	Utilities, Real Estate
S&P 500:	4,538.43 (-1.18%)		Consumer Staples
S&P Midcap:	2,702.14 (-2.73%)	Weak Sectors:	Financials, Cons. Discretionary
S&P Smallcap:	1,341.81 (-2.48%)		Comm. Services
NASDAQ Comp:	15,085.47 (-2.6%)	NYSE Advance/Decline:	469 / 2,857
Russell 2000:	2,159.31 (-3.83%)	NYSE New Highs/New Lows:	20 / 202
		AAII Bulls/Bears:	26.7% / 42.4%

The S&P 500 Index recorded its second consecutive weekly loss as it retraced 1.18%. The index finished the month of November down 0.83% after rising to record highs early in the month and falling in the last week to its final level. Equity markets were spooked by the announcement of a new Covid-19 variant of concern, Omicron, which originated in South Africa but has been identified in several US states already. The VIX volatility index spiked over 100% from an October low to the highest level seen since January of this year. The Solative Airlines, Hotels, and Cruise Lines Index has fallen 8.7% since Thanksgiving as economically sensitive stocks sold off and Covid winners rebounded on the news. Equity markets also responded negatively to Fed Chair Jay Powell's comments on Tuesday that current inflation may not be as "transitory" as previously expected, although he indicated that the Fed still plans to move forward on the easing of the accommodative monetary policy that has propped up asset values throughout the Covid crisis. The best performing sectors in the S&P 500 during the past week were Utilities and Real Estate while Communications Services and Consumer Discretionary performed the worst. The top S&P 500 performer, **Vertex Pharmaceuticals** jumped 11.4% during the week as the company released positive results from its VX-147 drug which has the potential to cure type 1 diabetes while **Etsy Inc.** was the worst performer, returning -20.6%. Nonfarm payrolls disappointed in November as the US economy added fewer jobs but the unemployment rate decreased due to adults rejoining the work force. The market is anticipating a blowout November CPI inflation rate to be announced in the week ahead. The median estimate of 6.7% growth would be the highest since 1982. US investors will continue to monitor exposure to China as pressure from Chinese regulators led **Didi Global Inc.** to make the decision to delist from the NYSE in favor of a Hong Kong listing. In the week ahead we expect to see earnings results from software companies **Oracle, Inc.** and **MongoDB, Inc.** as well as meme-stock favorites **GameStop Corporation** and **ChargePoint Holdings, Inc.**