US Economy and Credit Markets

Yields and Weekly Changes:

3 Mo. T-Bill:	-0.003 (-0.8 bps)	GNMA (30 Yr) 6% Coupon:	111-14/32 (2.66%)
6 Mo. T-Bill:	0.025 (-0.3 bps)	Duration:	3.88 years
1 Yr. T-Bill:	0.041 (unch.)	Bond Buyer 40 Yield:	3.45 (1 bp)
2 Yr. T-Note:	0.147 (0.2 bps)	Crude Oil Futures:	65.37 (0.47)
3 Yr. T-Note:	0.326 (3.7 bps)	Gold Spot:	1,843.43 (12.19)
5 Yr. T-Note:	0.813 (3.9 bps)	Merrill Lynch High Yield Indices:	
10 Yr. T-Note:	1.628 (5.1 bps)	U.S. High Yield:	4.81 (5 bps)
30 Yr. T-Bond:	2.340 (6.3 bps)	BB:	3.84 (4 bps)
		B:	5.21 (6 bps)

Longer-term Treasury yields climbed last week as inflation data came in higher than expected. The Consumer Price Index rose 0.8% in April over the prior month and 4.2% in the last year, which was the highest year-over-year increase since September 2008. Higher used-car prices accounted for more than a third of the increase, rising 10% in April over the prior month, which was the largest one-month increase on record dating back to 1953. The Producer Price Index also topped expectations as supply bottlenecks and materials shortages contributed to an increase in production costs. Higher inflation has weighed on consumer sentiment, according to the University of Michigan Consumer Sentiment Index, which came in well below even the lowest estimates with consumers worried about higher prices for things like homes, cars, and household durables. Initial jobless claims reached a new pandemic low of 473,000, making significant progress from the high of over 6 million, while job openings in the U.S. reached a record of over 8 million in March as the economy reopens but businesses face challenges filling open positions. Major economic reports (related consensus forecasts, prior data) for the upcoming week include Monday: May Empire Manufacturing (23.7, 26.3); Tuesday: April Housing Starts (1,703k, 1,739k); Wednesday: May 14 MBA Mortgage Applications (N/A, 2.1%); Thursday: May 15 Initial Jobless Claims (460k, 473k), April Leading Index (1.3%, 1.3%); Friday: May Preliminary Markit US Manufacturing PMI (60.2, 60.5), April Existing Home Sales (6.08m, 6.01m).

US Equities

Weekly Index Performance:		Market Indicators:	
DJIA:	34,382.13 (-1.08%)	Strong Sectors:	Cons Disc, Info Tech, Comm Serv
S&P 500:	4,173.85 (-1.35%)		
S&P Midcap:	2,721.89 (-1.71%)	Weak Sectors:	Cons Staples, Financials, Materials
S&P Smallcap:	1,354.82 (-1.38%)		
NASDAQ Comp:	13,429.98 (-2.32%)	NYSE Advance/Decline:	997 / 2,496
Russell 2000:	2,224.63 (-2.03%)	NYSE New Highs/New Lows:	552 / 23
		AAII Bulls/Bears:	36.5% / 27.0%

Markets ended a volatile week lower as investors fear inflation could hurt corporate profit margins and cause the Federal Reserve to end its easy-money policies. Consumer prices jumped by 4.2% year-over-year and 0.8% for the month of April, well above consensus estimates. Major contributors to the rise in prices were used cars, rental cars, airfare, lodging, and food away from home. In addition, producer prices rose more than economists forecasted. In other economic news, retail sales stalled in April after a sharp advance in March due partially to stimulus checks. Fears of higher inflation and interest rates led to a large selloff in many growth stocks. Shares of **Tesla Inc., Trade Desk Inc** and **Square Inc**. all fell by over 10% for the week. With an economic resurgence underway and higher rates potentially on the horizon, investors are dumping covid-winners for economically sensitive sectors. As earning season nears an end, **NortonLifeLock Inc.** surged on better-than-expected subscribers and a new buyback program. Shares of **Hanesbrand Inc.** slumped on disappointing guidance as the apparel maker restructures their business. Looking ahead to next week, traders will closely follow the Federal Reserve minutes for clues on potential policy changes as economic growth accelerates and prices paid increase. Also, how officials define "transitory" in respect to inflation. With over 90% of firms reporting results, earnings have surprised to the upside by over 20% for the first quarter. In our view, companies with reasonable valuations and improving fundamentals have room for further upside.

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