US Economy and Credit Markets

Yields and Weekly Changes:

3 Mo. T-Bill:	5.449 (0.1 bps)	Bond Buyer 40 Yield:	5.29 (-1 bps)
6 Mo. T-Bill:	5.517 (-0.3 bps)	Crude Oil Futures:	85.54 (-3.21)
1 Yr. T-Bill:	5.388 (0.7 bps)	Gold Spot:	2,006.37 (24.97)
2 Yr. T-Note:	5.002 (-7.1 bps)	Merrill Lynch High Yield Indices:	
3 Yr. T-Note:	4.833 (-8.2 bps)	US High Yield:	9.52 (-6 bps)
5 Yr. T-Note:	4.761 (-9.7 bps)	BB:	8.08 (-12 bps)
10 Yr. T-Note:	4.835 (-7.9 bps)	B:	9.69 (-5 bps)
30 Yr. T-Bond:	5.014 (-6.1 bps)		

The 10-year Treasury yield hit 5% last week for the first time since 2007. While the expectation is that the Fed will hold rates higher for longer, an increasing supply of government debt is also contributing to the rise in yields. Real GDP grew 4.9% annualized in the third quarter, coming in above expectations and well ahead of the 2% growth in recent quarters. High consumer spending, supported by the strong labor market, contributed to the rapid growth. Business investment fell during the quarter for the first time in two years, however, reflecting a decline in investments in equipment. The European Central Bank paused its rate hikes last week, as expected, following ten consecutive hikes. ECB President Christine Lagarde reiterated that discussing rate cuts is “premature.” Inflation data released last Friday showed the Fed’s preferred inflation measure, the core PCE, which doesn’t include food and energy prices, rose 0.3% in September from the prior month. Annualized, the 3.7% inflation rate is still well ahead of the Fed’s 2% target, suggesting that cuts aren’t on the horizon anytime soon. Major economic reports (related consensus forecasts, prior data) for the upcoming week include Tuesday: October Conf. Board Consumer Confidence (100.0, 103.0), October MNI Chicago PMI (45.0, 44.1); Wednesday: November 1 FOMC Rate Decision – Upper Bound (5.50%, 5.50%), October ISM Manufacturing (49.0, 49.0), October ADP Employment Change (140k, 89k), October 27 MBA Mortgage Applications (N/A, -1.0%), October Final S&P Global US Manufacturing PMI (50.0, 50.0); Thursday: October 28 Initial Jobless Claims (210k, 210k), September Final Durable Goods Orders (N/A, 4.7%), September Factory Orders (1.9%, 1.2%); Friday: October Change in Nonfarm Payrolls (183k, 336k), October Unemployment Rate (3.8%, 3.8%).

US Equities

Weekly Index Performance:		Market Indicators:	
DJIA:	32,417.59 (-2.14%)	Strong Sectors:	Utilities, Materials
S&P 500:	4,117.37 (-2.52%)		Cons. Staples
S&P Midcap:	2,326.82 (-2.77%)	Weak Sectors:	Health Care, Energy
S&P Smallcap:	1,068.80 (-2.25%)		Comm. Services
NASDAQ Comp:	12,643.01 (-2.62%)	NYSE Advance/Decline:	827 / 2,171
Russell 2000:	1,636.94 (-2.6%)	NYSE New Highs/New Lows:	42 / 787
		AAII Bulls/Bears:	29.3% / 43.2%

Stocks sputtered last week with all major U.S. equity indices ending in the red, the S&P 500 dropped 2.52% which marked a 10% slide from its year high, on July 31st, putting the index in “correction” territory. The VIX, Wall Street’s fear gauge, has also finished its second consecutive week above 20 after staying below the threshold for the last 100 days indicating heightened uncertainty among investors. With tomorrow marking the end of October it’s looking increasingly likely that the S&P 500 is on track for its third straight monthly loss as soaring bond yields and deteriorating geopolitical developments subdue investors’ appetite for risk. The only sector in the S&P 500 that experienced a positive return last week was the Utilities sector led by **NextEra Energy Inc.** after the company expressed strong demand for renewable projects during their Q3 earnings call despite the tough macroeconomic backdrop. The worst performing sector in the S&P 500 was the Communication Services sector which experienced widespread pressure as only 3 of the 22 names in the sector managed to end the week in the green. Notable names that dragged on the sector were **Charter Communications Inc**. and **Alphabet Inc.** which returned -13.42% and -9.90% respectively. **Alphabet**, the parent of Google, beat analysts’ overall earnings estimates but slumped as weakness in its cloud business overshadowed its strengths in other segments. This response to quarterly results hasn’t been unique as an underwhelming earnings season thus far and high bond yields has led to more than two-thirds of the companies in the S&P 500 trading below their 200-day moving average. U.S. stocks currently exhibit widespread pain and there seems to be no consensus on where the market is heading next, some strategists believe the market is approaching a key technical level that will lead to a bounce while others believe the pain will continue. Upcoming this week investors will pay close attention to the FOMC meeting on Wednesday, while the swap market currently expects, with certainty, that rates will stay the same, investors will be interested in the language used by Chairman Powell in the press conference to gauge how hawkish the Fed is. Last week US Inflation expectations rose to a five-month high on increased gas prices, and the Fed’s preferred inflation measure, the PCE Deflator, accelerated to a four-month high in September. While this isn’t enough to make the Fed raise rates this week, it does introduce the possibility of another rate hike in the coming months if this trend of reaccelerating inflation continues.