US Economy and Credit Markets

Yields and Weekly Changes:

3 Mo. T-Bill:	4.349 (1.3 bps)	Bond Buyer 40 Yield:	4.98 (-3 bps)
6 Mo. T-Bill:	4.267 (-2.4 bps)	Crude Oil Futures:	72.98 (8.40)
1 Yr. T-Bill:	4.058 (-8.2 bps)	Gold Spot:	3,432.34 (121.92)
2 Yr. T-Note:	3.948 (-8.9 bps)	Merrill Lynch High Yield Indices:	
3 Yr. T-Note:	3.903 (-11.7 bps)	US High Yield:	7.66 (-4 bps)
5 Yr. T-Note:	4.000 (-12.1 bps)	BB:	6.31 (-3 bps)
10 Yr. T-Note:	4.399 (-10.7 bps)	B:	7.86 (-5 bps)
30 Yr. T-Bond:	4.894 (-7.4 bps)		

Treasury yields dropped moderately over the course of the week on cooling trade tensions despite geopolitical conflict in the Middle East. During the first half of the week, yields began to drop as optimism picked up for a trade deal between the United States and China. By Wednesday, President Donald Trump said that a trade agreement between the two economic superpowers was “done” with a 55% tariff on Chinese goods and 10% tariff on U.S. goods. He also added that “rare earths” would be supplied up front by China. The inflation readings that were reported on Wednesday also led to optimism amongst investors as the increase in the Consumer Price Index was nearly unchanged from the previous month. This has led investors to believe that the Federal Reserve Bank may be able to cut interest rates more aggressively. Yields then rebounded moderately on Friday after Israel launched an ariel assault on Iran, sparking a regional conflict between the two powers. With the geopolitical turmoil, investors began seeking the perceived safety of Treasurys. The market also expressed concern over the supply of oil if Israel were to destroy Iranian oil fields, which caused the price of oil to increase 13%. Investors still anticipate nearly 2 rate cuts by the end of the year and the market implied Federal Funds Rate for the end of 2024 dropped from 3.89 to 3.83 over the course of the week. Major economic reports (related consensus forecasts, prior data) for the upcoming holiday-shorted week include Monday: June Empire Manufacturing (-6.0, -9.2); Tuesday: May Advance Retail Sales MoM (-0.7%, 0.1%), May Industrial Production MoM (0.0%, 0.0%); Wednesday: June 13 MBA Mortgage Applications (n/a, 12.5%), May Housing Starts (1360k, 1361k), June 14 Initial Jobless Claims (245k, 248k), June 18 FOMC Rate Decision (Upper Bound) (4.5%, 4.5%); Friday: May Leading Index (-0.1%, -1.0%).

US Equities

Weekly Index Performance:		Market Indicators:	
The Dow®	42,197.79 (-1.3%)	Strong Sectors:	Energy, Health Care Utilities
S&P 500®	5,976.97 (-0.36%)		
S&P MidCap 400®	3,006.70 (-1.4%)	Weak Sectors:	Cons. Staples, Industrials Financials
S&P SmallCap 600®	1,294.07 (-1.31%)		
Nasdaq Composite®	19,406.83 (-0.61%)	NYSE Advance/Decline:	1,143 / 1,679
Russell 2000®	2,100.51 (-1.45%)	NYSE New Highs/New Lows:	168 / 70
		AAII Bulls/Bears:	36.7% / 33.6%

The S&P 500 fell 36 basis points over a volatile news week that began with optimism regarding the possibility that the Trump administration may go easier on China in the semiconductor sector, continued with soft inflation data that encouraged markets further, and ended with the market digesting the implications of an attack by Israel against Iran’s nuclear weapons program. Iran is of course oil-rich, and energy prices surged higher after the attack, propelling energy sector returns along with it. **Exxon Mobil** contributed the most to the S&P 500’s return among energy names with its 7.53% gain. More defensive sectors such as health care and utilities performed relatively well. **Eli Lilly** was the health care sector’s largest contributor, returning 6.43%, while electric utility name **NextEra Energy**’s 3.63% return led utilities contributions to the S&P 500. The more cyclical financials sector performed worst among sectors, with **Visa**’s -4.69% return negatively impacting the S&P 500 the most among financials names. Turning to economic news, CPI data for May came in soft at 0.1% versus the 0.2% expected; CPI ex Food and Energy rose 0.1% in May versus the 0.3% expected. Year over year, CPI met the 2.4% expectation, while CPI ex Food and Energy year over year registered a 2.8% figure versus the 2.9% expected. Producer inflation data was soft too, with PPI Final Demand coming in at 0.1% for May, and PPI ex Food and Energy was 0.1% for the month versus the 0.3% expected. PPI Final demand year over year met the 2.6% expectation, while PPI ex Food and Energy saw a 3.0% rate versus the 3.1% expected. The University of Michigan Consumer Sentiment Index rose from 52.2 last month to 60.5 this month, far more positive than the 53.6 level expected. Current Conditions in this suite hit 63.7, up from 58.9 and rosier than the 59.3 expected. The 5-10 year inflation expectation number met the survey’s 4.1% figure, 10 basis points lower than last month. The 1 Year Inflation expectation tumbled from 6.6% to 5.1%, below the 6.4% figure expected. Upcoming this week there will be plenty of news for investors to digest; on the economic front, we will get retail sales numbers, import prices, housing starts, and an FOMC rate decision. On the earnings front, six members of the S&P 500 will report, including IT Services name **Accenture**, grocer **The Kroger Co**., and household durables name **Lennar Corp**.