US Economy and Credit Markets

Yields and Weekly Changes:

3 Mo. T-Bill:	3.700 (1.6 bps)	Bond Buyer 40 Yield:	4.75 (-8 bps)
6 Mo. T-Bill:	3.744 (9.3 bps)	Crude Oil Futures:	98.32 (-0.39)
1 Yr. T-Bill:	3.797 (17.2 bps)	Gold Spot:	4,492.42 (-527.07)
2 Yr. T-Note:	3.900 (18.3 bps)	Merrill Lynch High Yield Indices:	
3 Yr. T-Note:	3.918 (18.1 bps)	U.S. High Yield:	7.66 (10 bps)
5 Yr. T-Note:	4.008 (15.0 bps)	BB:	6.42 (8 bps)
10 Yr. T-Note:	4.380 (10.3 bps)	B:	8.04 (12 bps)
30 Yr. T-Bond:	4.938 (3.4 bps)		

Treasury yields rose significantly over the course of the week, especially among shorter maturity Treasurys, which caused a significant flattening of the yield curve, as the conflict in Iran led to fluctuating oil prices and concerns for higher inflation. On Monday, oil prices dropped 5% on optimism that more oil tankers would be allowed safely through the Strait of Hormuz as President Trump reiterated a focus on protecting these ships, along with asking other nations for assistance in their safe passage. However, as the week went on, Trump began to rule out help from other nations and the largest natural gas complex in Iran was hit militarily. Investors became more pessimistic about a quick resolution to the conflict, and oil prices rose to end the week relatively unchanged. Treasury yields rose significantly on Friday as the turmoil in the energy market due to the conflict in Iran led investors to speculate that sustained higher oil price would flow through to higher inflation. This would therefore lead the Federal Reserve Bank to pause cuts to the Federal Funds Rate, and instead the central bank may have to start increasing the rate. The market is no longer pricing in any interest rate cuts this year, instead now pricing in a 12% probability of an increase to the rate at the April 29th meeting. The market implied end of year Federal Funds Rate rose from 3.40 to 3.72 over the week. This also led to a flattening of the yield curve as the spread between the 10-year yield and the 2-year yield dropped from 56 basis points to 48 basis points over the course of the week. Major economic reports (related consensus forecasts, prior data) for the upcoming week include: Monday: January Construction Spending (0.1%, 0.3%); Tuesday: March Prelim. S&P Global US Manufacturing PMI (n/a, 51.6); Wednesday: March 20 MBA Mortgage Applications (n/a, -10.9%); Thursday: March 21 Initial Jobless Claims (n/a, 205k); Friday: March Final University of Michigan Sentiment (n/a, 55.5).

US Equities

Weekly Index Performance:		Market Indicators:	
The Dow®	45,577.47 (-2.09%)	Strong Sectors:	Energy, Financials
S&P 500®	6,506.48 (-1.87%)		Comm. Services
S&P MidCap 400®	3,296.29 (-1.31%)	Weak Sectors:	Cons. Staples, Materials
S&P SmallCap 600®	1,466.68 (-1.25%)		Utilities
Nasdaq Composite®	21,647.61 (-2.06%)	NYSE Advance/Decline:	776 / 2,044
Russell 2000®	2,438.45 (-1.65%)	NYSE New Highs/New Lows:	155 / 291
		AAII Bulls/Bears:	30.4% / 52%

The S&P 500 fell 1.87% last week as the conflict in Iran continued to escalate. Oil prices fell early in the week, and equities gained as investors hoped traffic could resume through the Strait of Hormuz. Sentiment quickly turned last Wednesday as it was reported that key oil and gas infrastructure in Iran and Qatar was extensively damaged. Naturally, the best performing sector in the S&P 500 was the Energy sector, which returned 2.75%. Positive performance was broad based as oil prices finished the week higher. The top performing Energy company was **APA Corp** which rallied 13.46% after the firm saw several price target increases by sell side analysts on lower risks of an oil supply glut due to the conflict in the Middle East. The worst performing sector was the Utilities sector which ended the week down 4.98%, all constituents in the sector ended the week with a negative return. Given utility companies' capital-intensive businesses and generally higher dividend yield they can be seen as bond proxies making them much more rate sensitive. Treasury yields rose across the curve last week and expectations of rate cuts throughout the year decreased pressuring utility stocks. The worst performing stock in the sector was **Eversource Energy,** which fell 8.80%. In other news, the Financials sector was the only other sector to experience a positive return last week, finishing the week with a 42 basis point return. Most financial institutions caught a bid after the Fed unveiled its plan to relax capital requirements which may eventually unleash billions of dollars for lending, share buybacks, and dividends. The financial industry pushed back on the proposed Basel III endgame rules in 2023 leading to the Fed reevaluating plans. The new current proposal would result in moderate decreases in capital requirements for the biggest banks while midsize and smaller banks would see greater decreases. The new proposed rule changes are currently in the 90-day public consultation period where the Fed will hear from industry professionals before potentially finalizing the rules. Upcoming this week three companies in the S&P 500 are expected to report earnings. **Cintas Corp**, **Paychex Inc**, and **Carnival Corp** are expected to report.