

US Economy and Credit Markets			
Yields and Weekly Changes:			
3 Mo. T-Bill:	1.882 (-1.8 bps)	GNMA (30 Yr) 6% Coupon:	107-25/32 (3.65%)
6 Mo. T-Bill:	2.079 (3.6 bps)	Duration:	3.98 years
1 Yr. T-Bill:	2.289 (4.1 bps)	Bond Buyer 40 Yield:	4.03 (+6 bps)
2 Yr. T-Note:	2.547 (1.2 bps)	Crude Oil Futures:	71.28 (+0.58)
3 Yr. T-Note:	2.713 (2.2 bps)	Gold Spot:	1,293.04 (-26.26)
5 Yr. T-Note:	2.888 (5.0 bps)	Merrill Lynch High Yield Indices:	
10 Yr. T-Note:	3.056 (8.6 bps)	U.S. High Yield:	6.53 (+4 bps)
30 Yr. T-Bond:	3.197 (9.3 bps)	BB:	5.37 (+6 bps)
		B:	6.78 (+4 bps)

Treasury prices dropped moderately over the course of the week on strong economic data and speculation that both the Federal Reserve and European Central Bank may raise interest rates more quickly than previously expected. On Tuesday, April Advance Retail Sales were solid while March sales figures were revised to 0.8%, and May Empire Manufacturing was higher than expected, causing a risk-on environment which led to a significant drop in Treasury prices. It was also reported on Tuesday that the U.S. and China were very far apart on trade negotiations, leading to speculation of a trade war that could push both prices and inflation higher and Treasury prices lower. On Monday, a member of the ECB's governing council said that the end-date for asset purchases was approaching and that the ECB would need to give guidance on rate increases, which heightened expectations of more rapid rate increases from the ECB. Somewhat mitigating the drop in Treasury prices was weak inflation data that led investors to speculate that a more conservative approach to raising rates would be necessary. Altogether, the market-implied probability of future rate increases remained steady. On Friday, Treasury prices rebounded as the fears of geopolitical concerns with trade negotiations with China, the report that a NAFTA agreement was not close, and North Korea threatening to cancel talks led investors to seek the perceived safety of Treasuries. Major economic reports (related consensus forecasts, prior data) for the upcoming week include: Wednesday: May 18 MBA Mortgage Applications (N/A, -2.7%), May Preliminary Markit US Manufacturing PMI (56.5, 56.5), April New Home Sales (678k, 694k); Thursday: May 19 Initial Jobless Claims (220k, 222k), April Existing Home Sales (5.55m, 5.60m); Friday: April Preliminary Durable Goods Orders (-1.4%, 2.6%), May Final U. of Mich. Sentiment (98.8, 98.8).

US Equities			
Weekly Index Performance:		Market Indicators:	
DJIA:	24,715.09 (-0.36%)	Strong Sectors:	Materials, Energy, Industrials
S&P 500:	2,712.97 (-0.47%)	Weak Sectors:	Real Estate, Utilities, Info Tech
S&P Midcap:	1,943.37 (+0.28%)	NYSE Advance/Decline:	1,460 / 1,617
S&P Smallcap:	1,002.57 (+1.62%)	NYSE New Highs/New Lows:	279 / 197
NASDAQ Comp:	7,354.34 (-0.60%)	AAII Bulls/Bears:	36.7% / 20.6%
Russell 2000:	1,626.63 (+1.27%)		

Stocks fell for the week as investors grappled with higher bond yields, political risks around the globe, trade tensions and higher energy prices. The real estate and utilities sectors, which tend to be bond proxies due to their high dividend yields, lost over 2% for the week. By contrast, the materials and energy sectors posted the biggest gains as investors are starting to price in higher inflation expectations. In economic news, retail sales rose 0.3% in April, in-line with forecasts, as higher paychecks from tax-cuts offset rising fuel costs. In stock news, both **Walmart Inc.** and **Cisco Systems Inc.** fell after announcing quarterly results, despite both companies beating earnings expectations. Shares of **Macy's Inc.** gained 14.6% for the week on strong earnings results as comparable sales increased by 4.2% and management increased full-year fiscal guidance. **Campbell Soup** fell after the company announced another disappointing quarter and guided down for the full year. Despite missing estimates, **Deere & Co.** shares gained as the maker of heavy equipment announced price increases to offset higher freight and raw material prices. With earnings season nearly in the books, the S&P 500 is on pace to grow earnings by 24% in the 1<sup>st</sup> quarter and by 22% for 2018. While higher interest rates and inflation could provide some headwinds to the market moving forward, it is most likely not enough to derail the market if domestic economic growth and earnings growth remain robust. The earnings multiple for the S&P 500 has contracted year-to-date as markets are up marginally versus an over 20% rise in earnings, leaving room for equity gains in the near term.

