

US Economy and Credit Markets			
Yields and Weekly Changes:			
3 Mo. T-Bill:	0.07 (+06 bps)	GNMA (30 Yr) 6% Coupon:	111-29/32 (1.31%)
6 Mo. T-Bill:	0.11 (+02 bps)	Duration:	3.44 years
1 Yr. T-Bill:	0.14 (unch.)	30-Year Insured Revs:	141.0% of 30 Yr. T-Bond
2 Yr. T-Note:	0.27 (+02 bps)	Bond Buyer 40 Yield:	4.10%
3 Yr. T-Note:	0.39 (+04 bps)	Crude Oil Futures:	93.04 (+2.24)
5 Yr. T-Note:	0.81 (+10 bps)	Gold Futures:	1657.00 (+1.10)
10 Yr. T-Note:	1.90 (+20 bps)	Merrill Lynch High Yield Indices:	
30 Yr. T-Bond:	3.10 (+23 bps)	BB, 7-10 Yr.:	5.16% (-06 bps)
		B, 7-10 Yr.:	6.27% (-09 bps)

Bond yields were sharply higher this week as Washington finally took action limiting the massive tax hikes and spending cuts that were scheduled for implementation at the beginning of the year. Also weighing on Treasuries, Fed minutes from December indicated that some members think the bond purchase programs might conclude by the end of the year and payroll additions last month were strong, adding 155,000. In other economic news, the ISM Manufacturing Index increased to 50.7 in December, total vehicle sales in December were reported at a 15.3 million annual rate, in line with expectations and the unemployment rate for December came in at 7.8%, slightly higher than the estimate of 7.7%. November factory orders were flat against expectations of 0.4% growth. While issues surrounding the tax hikes have been settled, focus in the bond market will quickly turn towards negotiations around spending cuts and raising the debt ceiling in the coming months. Major economic reports (and related consensus forecasts) for the shortened holiday week next week include: Tuesday: November Consumer Credit (\$11.5B); Thursday: November Wholesale Inventories (0.3%); Friday: December Import Price Index (0.1% MoM, -1.5% YoY), November Trade Balance (-\$41.2B), December Monthly Budget Statement (-\$21.3B).

US Stocks			
Weekly Index Performance:		Market Indicators:	
DJIA:	13435.21 (+497.1, +3.8%)	Strong Sectors:	Energy, Financials, Industrials
S&P 500:	1466.47 (+64.04, +4.6%)	Weak Sectors:	Utilities, Cons Staples, Health Care
S&P MidCap:	1056.07 (+51.74, +5.2%)	NYSE Advance/Decline:	2,645/ 444
S&P Small Cap:	492.62 (+25.21, +5.4%)	NYSE New Highs/New Lows:	120/ 27
NASDAQ Comp:	3101.65 (+141.3, +4.8%)	AAll Bulls/Bears:	38.7%/ 36.2%
Russell 2000:	879.15 (+47.05, +5.7%)		

The market continued to rally on Monday as the S&P 500 finished 2012 with a total return of 16%. Headlines centered around the fiscal cliff as the Bush tax cuts were set to expire on 12/31/2012. Fortunately, lawmakers passed a bill late Tuesday night preventing a tax increase on 99% of Americans and spending cuts. However, the deal was not the grand bargain and did little to reduce the current fiscal deficit. The issue will return in February as lawmakers grapple over raising the \$16.4 trillion debt limit. Equities posted solid gains on Wednesday after being closed Tuesday as the markets were revalued with sequestration temporarily off the table. The latter half of the week brought additional gains as the US non-manufacturing sector expanded last month. In stock news, **Eli Lilly & Co.** rose after announcing fiscal 2013 guidance above sell-side estimates on expectations of higher sales from diabetes drugs. However, **Family Dollar Stores Inc.** fell the most since 2000 after cutting fiscal 2013 guidance as customers are reluctant to spend on higher margin discretionary items. **Paragon Shipping Inc.** posted solid gains due to an improved outlook for shipping rates and global growth. **US Airways Group Inc.** shares also jumped after passenger traffic rose 1.8% in December. Looking ahead to next week, **Alcoa Inc.** will unofficially kick off the 4th quarter earnings season on Tuesday. Additionally, **Citigroup Inc.** is expected to announce a share buyback if the Federal Reserve approves their plan. Looking longer term, markets will need a solid earnings season as well as another budget deal reached by Washington in February to keep the current market momentum.