US Economy and Credit Markets

Yields and Weekly Changes:

3 Mo. T-Bill:	0.04 (unch.)	GNMA (30 Yr) 6% Coupon:	110-10/32 (2.30%)
6 Mo. T-Bill:	0.08 (+01 bps)	Duration:	3.55 years
1 Yr. T-Bill:	0.12 (+01 bps)	30-Year Insured Revs:	132.3% of 30 Yr. T-Bond
2 Yr. T-Note:	0.37 (+10 bps)	Bond Buyer 40 Yield:	4.96 (+47 bps)
3 Yr. T-Note:	0.71 (+22 bps)	Crude Oil Futures:	93.90 (-3.95)
5 Yr. T-Note:	1.43 (+40 bps)	Gold Futures:	1291.60 (-95.70)
10 Yr. T-Note:	2.54 (+41 bps)	Merrill Lynch High Yield Indices:	
30 Yr. T-Bond:	3.59 (+29 bps)	U.S. High Yield:	7.00% (+37 bps)
		BB:	5.58% (+18 bps)
		B:	6.92% (+21bps)

Treasury prices dropped significantly over the week as yields hit their highest level in two years. The Fed indicated that asset purchases will be scaled back later this year and possibly stopped completely next year. Consensus estimates by economists believe that monthly bond purchases by the fed will be cut to $65 billion (from $85 billion) in September this year and stopped completely in June of next year. This caused Treasury prices to decrease dramatically as these asset purchases have artificially held interest rates down. Equity markets began the week higher even though there were reports that the Fed may begin tapering asset purchases if economic data continues to be strong. Equities rose and Treasuries dropped on Monday as the National Association of Homebuilders / Wells Fargo housing market index rose much more that estimated. However, once the Fed released statements and Chairman Ben Bernanke gave commentary on Wednesday about the expected reduction in asset purchases, equities and Treasuries both sold off significantly. Prices dropped further on Thursday as an auction for TIPs attracted lower demand and higher yields than usual. Even though the equity market rebounded slightly on Friday, Treasury prices continued to slide as yields on a 10-year note reached their highest level since August 2011. The news that the Fed will likely scale back asset purchases also caused Gold to drop dramatically over the week. Major economic reports (and related consensus forecasts) for next week include: Tuesday: May Durable Goods Orders (3.0%), June Consumer Confidence (75.0), May New Homes Sales (460,000); Wednesday: 1st Quarter Annualized GDP (2.4% QoQ); Thursday: May Personal Income (0.2%), May Personal Spending (0.3%), June 22 Initial Jobless Claims (345,000); Friday: June Chicago Purchasing Manager (55.0), June U. of Michigan Confidence (82.9).

US Stocks

Weekly Index Performance:

DJIA:	14,799.40	(-1.8%)
S&P 500:	1,592.43	(-2.1%)
S&P MidCap:	1,137.19	(-3.0%)
S&P Small Cap:	543.27	(-1.4%)
NASDAQ Comp:	3,357.25	(-1.9%)
Russell 2000:	963.68	(-1.8%)

Market Indicators:

Strong Sectors:	Energy, Financials Industrials
Weak Sectors:	Telecom, Utilities, Materials
NYSE Advance/Decline:	567/ 2,624
NYSE New Highs/New Lows:	280/ 465
AAII Bulls/Bears:	37.5%/ 30.0%

After a strong rally to start the week, shares fell hard the latter part of the week after Federal Reserve Chairman Ben Bernanke said that the central bank might “moderate” its pace of bond purchases later this year due to an improving economy. The telecommunications and utilities sectors, both sensitive to interest rate changes, were hit the hardest as a rise in bond yields dampened the demand for higher yielding sectors. Additionally, **PulteGroup Inc.** and other homebuilders lost ground on housing market concerns from higher mortgage rates. However, regional banks increased as higher interest rates should lead to higher net interest margins. In stock news, **Netflix Inc.** shares gained after **DreamWorks Animation** agreed to create over 300 hours of original programing for the streaming service. Despite doubling its dividend and announcing a $12 billion buyback program, **Oracle Corp.** fell after missing sales expectations for the second straight quarter as cloud competitors took market share. **Yamana Gold Inc.**, a gold miner**,** continued to plunge as gold hit its lowest point since 2011 and Brazil considers doubling mining royalty income fees. **FedEx Corp**. beat earnings expectations and sees full-year earnings potentially growing by 13% on cost cuts and international growth. Looking ahead to next week, durable goods orders and new home sales will be key economic indicators. For those with a longer term outlook, stimulus fears have created a nice entry point for equities as the Fed will most likely not reduce stimulus unless the economy continues to improve. Both scenarios could add to equity returns as a stronger economy with less Fed intervention bodes well for equities, whereas continued Fed stimulus with a slower growth economy also would favor equities over other asset classes.