US Economy and Credit Markets

Yields and Weekly Changes:

3 Mo. T-Bill:	0.04 (unch.)	GNMA (30 Yr) 6% Coupon:	109-14/32 (2.58%)
6 Mo. T-Bill:	0.07 (unch.)	Duration:	3.60 years
1 Yr. T-Bill:	0.11 (-03 bps)	30-Year Insured Revs:	144.4% of 30 Yr. T-Bond
2 Yr. T-Note:	0.35 (-05 bps)	Bond Buyer 40 Yield:	4.85 (+02 bps)
3 Yr. T-Note:	0.67 (-08 bps)	Crude Oil Futures:	106.00 (+2.78)
5 Yr. T-Note:	1.42 (-18 bps)	Gold Futures:	1283.20 (-70.50)
10 Yr. T-Note:	2.59 (-14 bps)	Merrill Lynch High Yield Indices:	
30 Yr. T-Bond:	3.63 (-07 bps)	U.S. High Yield:	6.75% (-24 bps)
		BB:	5.35% (-22 bps)
		B:	6.82% (-24 bps)

Treasury prices rose over the week as the debate about the tapering of bond purchases from the Federal Reserve continued. Treasury prices began the week much lower due to the strong Jobs report the week before. This caused investor to believe that the Fed would scale back bond purchases soon but conflicting comments this week added to the uncertainty. On Wednesday, the Federal Reserve released minutes showing that about half of the members supported tapering later this year, while half supported bond purchases continuing into 2014. Then Fed Chairman Ben Bernanke made remarks saying that short-term interest rates will not rise immediately, which reaffirmed the low-rate policies of the central bank. This caused Treasury prices to rise during a 30-year auction on Thursday on significant demand. However, on Friday, Charles Plosser, President of the Philadelphia Federal Reserve Bank, made arguments for a wind-down of bond purchasing. Plosser supported a plan for tapering starting in September, which caused Treasury prices to drop slightly. Though, St. Louis Fed Bank President James Bullard said that low inflation numbers may require the Fed to continue bond purchases. Overall, Treasury prices still ended the week higher. Prices for both Oil and Gold rose significantly during the week as the U.S. Dollar dropped. Major economic reports (and related consensus forecasts) for next week include: Monday: July Empire Manufacturing (5.00), June Advance Retail Sales (0.8%); Tuesday: June Consumer Price Index (0.3% MoM, 1.7% YoY), June Industrial Production (0.3%); Wednesday: June Housing Starts (960,000); Thursday: July 13 Initial Jobless Claims (340,000), July Philadelphia Fed. (7.8), June Leading Indicators (0.3%).

US Stocks

Weekly Index Performance:

DJIA:	15,464.30	(+2.2%)
S&P 500:	1,680.19	(+3.0%)
S&P MidCap:	1,221.24	(+3.0%)
S&P Small Cap:	583.89	(+2.8%)
NASDAQ Comp:	3,600.08	(+3.5%)
Russell 2000:	1,036.52	(+3.1%)

Market Indicators:

Strong Sectors:	Utilities, Cons Staples, Health Care
Weak Sectors:	Telecom, Energy, Info Tech
NYSE Advance/Decline:	2,523/ 645
NYSE New Highs/New Lows:	551/ 119
AAII Bulls/Bears:	48.9%/ 18.3%

Equities posted strong gains after Ben S. Bernanke, Federal Reserve Chairman, stated that highly accommodative policy is needed for the foreseeable future. The S&P 500 touched record highs during the week, erasing losses since Bernanke first commented the Fed might reduce stimulus if the economy continues to recover. Additionally, markets praised a strong inventory number and shrugged off weak Chinese export data. **Alcoa Inc.** unofficially kicked off earnings season Monday by beating expectations on strong end market sales to carmakers. Two of the six major banks reported earnings on Friday with **JP Morgan Chase & Co.** reporting a 31% jump in profits on strong trading revenue. However, lending income fell due to rising rates. **Wells Fargo & Co.,** the other major bank to report, beat expectations as the loan portfolio grew by 3.4% and loan losses fell to their lowest point since second quarter 2006. Banks remain attractive as the S&P 500 Financials Index is still 50% below its peak in 2007 and potentially higher net interest margins from rising rates could add to future earnings. In addition, banks trade at only 1.2 times book value, below multiples of 1.8 times book in 2007 and 3 times book in 2000. In other stock news, **Intuitive Surgical Inc.** pre-announced negative results due to a 6% drop in robot sales as the market becomes saturated. Looking ahead to next week, investors will be focused on Bernanke's testimony in front of Congress and earnings. Equities are poised to beat reduced earnings expectations as the bar has been set low. It seems the Fed has done almost all it can do and the next leg up for the market will have to come from earnings growth.