US Economy and Credit Markets

Yields and Weekly Changes:

3 Mo. T-Bill:	0.23 (+04 bps)	GNMA (30 Yr) 6% Coupon:	113-03/32 (1.99%)
6 Mo. T-Bill:	0.35 (-09 bps)	Duration:	3.83 years
1 Yr. T-Bill:	0.47 (-16 bps)	Bond Buyer 40 Yield:	4.14 (-01 bps)
2 Yr. T-Note:	0.85 (-09 bps)	Crude Oil Futures:	29.70 (-3.46)
3 Yr. T-Note:	1.09 (-09 bps)	Gold Futures:	1089.30 (-8.60)
5 Yr. T-Note:	1.46 (-10 bps)	Merrill Lynch High Yield Indices:	
10 Yr. T-Note:	2.04 (-08 bps)	U.S. High Yield:	9.52% (+49 bps)
30 Yr. T-Bond:	2.81 (-10 bps)	BB:	6.78% (+42 bps)
		B:	9.78% (+58 bps)

Treasury prices increased significantly amid a rout in the global stock market due to a plunge in oil prices, poor economic data domestically and tumbling markets in China. Treasuries opened the week slightly down on Monday as the market shrugged off the previous week's drop in the Chinese stock market. However, oil prices continued to fall drastically to begin the week which caused Treasury prices to rebound on Tuesday as investors fled to the perceived safety of U.S. government debt. On Wednesday, the equity markets tumbled after the Chinese stock market began the day down 3% and markets around the world followed suit, while oil and Treasuries stayed flat. On Thursday, Treasuries also had little movement despite a rebound in the equity market and in oil. However, the equity markets and oil dropped significantly again on Friday, causing Treasury prices to rise again. The sell-off was fueled by an extremely disappointing January Empire Manufacturing number (-19.37), which vastly missed analyst expectations (-4.00), and another 5% drop in oil. Altogether, Treasury yields ended the week at a 3-month low and oil dropped 11%. Major economic reports (and related consensus forecasts) for the upcoming holiday-shortened week include: Wednesday: Jan 15 MBA Mortgage Applications, December Housing Starts (1.2M, 2.3% MoM), December CPI (0.0% MoM, 0.8% YoY); Thursday: January Philadelphia Fed Business Outlook (-4.0), January 16 Initial Jobless Claims; Friday: January P Market US Manufacturing PMI (51.3), December Existing Home Sales (5.2M, 9.2% MoM), December Leading Index (-0.1%).

US Equities

Weekly Index Performance:		Market Indicators:	
DJIA:	15,988.08 (-2.16%)	Strong Sectors:	Utilities, Telecom,
S&P 500:	1,880.33 (-2.15%)		Info. Tech.
S&P Midcap:	1,269.83 (-2.93%)	Weak Sectors:	Materials, Financials,
S&P Smallcap:	608.63 (-2.36%)		Cons. Discretionary
NASDAQ Comp:	4,488.42 (-3.34%)	NYSE Advance/Decline:	461 / 2,756
Russell 2000:	1,007.73 (-3.66%)	NYSE New Highs/New Lows:	46 / 1,283
		AAII Bulls/Bears:	17.9% / 45.5%

The S&P 500 Index returned -2.2% this week, and has returned -7.9% the last two weeks. This marks the worst two week return since 11/25/2011, when the index returned -8.2%. For a bit of perspective, even including this week, the S&P 500 Index has returned 77.2% since 11/25/2011. Oil futures closed Friday at $29.42, this marks the first time closing under $30 since 2003. Monday, **Alcoa Inc.** kicked off earnings season with an announcement that sales had fallen 18% last quarter and the effect of falling aluminum prices quelled their previous cost cutting measures. Alcoa fell 9% the trading day following their announcement. This week, three of the four largest banks in the U.S. announced quarterly results. **JPMorgan Chase & Co**. announced earnings and revenue above analyst expectations, citing lower litigation costs along with strong operating results. This sent the bank up 1.5% the day following their announcement. Further, **Citigroup Inc.** announced poor quarterly results and markets responded with a 6% sell off. **Wells Fargo & Co.** announced earnings and revenue in line with analyst expectations but their net interest margin was lower. Going into earnings season Citi was the 3rd largest bank in the U.S. by assets, however, coming out Citi fell to 4th with $1.73t in assets and Wells Fargo moved up to 3rd with $1.79t in assets. Much of the recent volatility has been attributed to the slowing Chinese economy. The Chinese economy is the 2nd largest in the world and its results do impact other places, but at the same time China is its own country with its own economic issues and so is the United States. For some perspective, between 11/20/2014 and 6/15/2015 the Shenzhen 300 Index was up 104% (in USD), while the S&P 500 Index was up 3% (in USD). Now on the way down, from 6/15/2015 to 1/15/2016 the Shenzhen 300 Index has returned -43% (in USD) and the S&P 500 returned -9% (in USD). Here at First Trust our investment philosophy revolves around the core posture that investment is for the long term, valuation always matters, and staying disciplined is a way to avoid emotional investing. Despite recent volatility and poor short term results, we continually look toward the long term and valuation. In the long run, we continue to remain positive on U.S. equities, as U.S. plow horse economy continues to plod along and valuations appear reasonable.