US Economy and Credit Markets

Yields and Weekly Changes:

3 Mo. T-Bill:	0.31 (unch.)	GNMA (30 Yr) 6% Coupon:	112-10/32 (1.99%)
6 Mo. T-Bill:	0.48 (+04 bps)	Duration:	3.85 years
1 Yr. T-Bill:	0.69 (+06 bps)	Bond Buyer 40 Yield:	3.90 (+01 bps)
2 Yr. T-Note:	0.91 (+03 bps)	Crude Oil Futures:	49.53 (+1.78)
3 Yr. T-Note:	1.06 (+02 bps)	Gold Spot:	1,211.95 (-40.03)
5 Yr. T-Note:	1.39 (+02 bps)	Merrill Lynch High Yield Indices:	
10 Yr. T-Note:	1.85 (+01 bps)	U.S. High Yield:	7.75% (-14 bps)
30 Yr. T-Bond:	2.65 (+02 bps)	BB:	5.44% (-11 bps)
		B:	7.61% (-12 bps)

Treasury prices dropped slightly over the course of the week on strong economic data, hawkish comments from the Federal Reserve and a strong equity market. On Monday, there was a slight twist to the yield curve as investors moved to longer-term bonds, causing the yield curve to narrow in anticipation of the Fed increasing interest rates in the coming months. The San Francisco Fed President said he still sees two or three rate hikes this year and the Boston Fed President said the U.S. is on the verge of meriting a June rate increase. Treasury prices fell on Tuesday as it was reported that new home sales surged in April leading investors to leave perceived safer assets and equities soared. On Thursday, Treasury prices rebounded despite a strong day for equities as investors remained skeptical the Fed would raise rates soon. Janet Yellen on Friday said that it would be appropriate to increase interest rates in the coming months citing that the economy continues to improve. The Fed Chairwoman stopped short of hinting rates would be increased in June, suggesting caveats of sluggish wage growth and full-time employment. All in all, it was a stronger statement than investors had expected. This combined with an upward revision in 1st Quarter GDP caused Treasuries to extend losses and finish the week lower. Major economic reports (and related consensus forecasts) for the upcoming holiday-shortened week include: Tuesday: April Personal Income (0.4%), April Personal Spending (0.7%), May Chicago Purchasing Manager (50.8), May Consumer Confidence Index (96.0), May Dallas Fed Manf. Activity (-8.0); Wednesday: May 27 MBA Mortgage Applications, May Final Markit US Manf. PMI (50.5), May ISM Manufacturing (50.5), April Construction Spending (0.5%); Thursday: May ADP Employment Change (175,000), May 28 Initial Jobless Claims (268,000); Friday: May Change in Nonfarm Payrolls (160,000), May Unemployment Rate (5.0%), April Factory Orders (1.0%), April Final Durable Goods Orders.

US Equities

Weekly Index Performance:		Market Indicators:	
DJIA:	17873.22 (2.15%)	Strong Sectors:	Info Tech, Financials
S&P 500:	2099.06 (2.32%)		Health Care
S&P Midcap:	1492.07 (2.96%)	Weak Sectors:	Cons. Staples, Energy
S&P Smallcap:	702.85 (3.27%)		Utilities
NASDAQ Comp:	4933.51 (3.48%)	NYSE Advance/Decline:	2,482 / 695
Russell 2000:	1150.45 (3.47%)	NYSE New Highs/New Lows:	241 / 50
		AAII Bulls/Bears:	17.8% / 29.4%

Equities posted strong gains as positive housing data increased investor confidence the economy can weather a potential summer rate hike. Since the release of the April Fed minutes, the tone of the Federal Open Market Committee has remained more hawkish. Chairwoman Janet Yellen said in a speech on Friday that a rate increase in the coming months could be appropriate if the labor market and economy continue to improve. In economic news, new homes sales jumped to their highest level in eight years and pending home resales increased by 5.1%, both easily beating consensus expectations. While the consumer remains strong, orders for business equipment remained weak as non-defense capital goods excluding aircraft declined by 0.8%. With the increased expectation of higher interest rates, bank stocks outperformed the broader market for the second successive week as financials could see a boost to their bottom lines. Interest-rate sensitive sectors lagged the market for the second consecutive week as utilities and consumer staples underperformed. In stock specific news, **Ionis Pharmaceuticals, Inc.** plummeted after **GlaxoSmithKline Plc** announced it would not initiate phase 3 trials on a drug they were developing together. **Toll Brothers Inc**., the luxury homebuilder, saw shares jump after announcing strong earnings as revenue increased by over 30% year-over-year. **Monsanto Co.** rejected **Bayer AG's** initial $62 billion bid to buy the agricultural chemicals company. **Monsanto Co.** cited too low of price and **Bayer AG's** potential inability to finance the all-cash deal. For the week ahead, data on personal spending, non-farm payrolls for May, OPEC's meeting in Vienna, and the ISM manufacturing report are potential market moving events.