## US Economy and Credit Markets

Yields and Weekly Changes:

| | | | |
|---|---|---|---|
| 3 Mo. T-Bill: | 1.31 (+04 bps) | GNMA (30 Yr) 6% Coupon: | 112-02/32 (2.55%) |
| 6 Mo. T-Bill: | 1.46 (+03 bps) | Duration: | 4.11 years |
| 1 Yr. T-Bill: | 1.68 (+03 bps) | Bond Buyer 40 Yield: | 3.90 (+02 bps) |
| 2 Yr. T-Note: | 1.84 (+04 bps) | Crude Oil Futures: | 57.30 (-0.06) |
| 3 Yr. T-Note: | 1.95 (+04 bps) | Gold Spot: | 1,256.44 (+7.95) |
| 5 Yr. T-Note: | 2.15 (+01 bps) | Merrill Lynch High Yield Indices: | |
| 10 Yr. T-Note: | 2.35 (-02 bps) | U.S. High Yield: | 6.17 (-02bps) |
| 30 Yr. T-Bond: | 2.69 (-08 bps) | BB: | 4.65 (-01 bps) |
| | | B: | 6.31 (-02 bps) |

As expected, the Federal Open Market Committee raised the targeted Federal Funds rate by another quarter percent last week to a range of 1.25%-1.50%. Producer and consumer price index data was released prior to the Fed's rate announcement Wednesday afternoon which provided mixed results on inflationary pressures. Yields rose Tuesday with the 10yr reaching as high as 2.40% after the PPI data exceeded consensus expectations. However, core CPI data was slightly disappointing at 0.1% vs the expected 0.2%. This data combined with the FOMC conference revealing the Fed's generally positive outlook for the economy caused yields to drop as investors reacted to the prospects of continued subdued inflation. The Fed remains on pace to increase rates three more times in 2018. The lack of inflationary data has supported long-dated Treasury prices and flattened the yield curve. The Fed revised growth estimates higher due to the likelihood of a federal tax cut and officials noted that this fiscal stimulus should not overheat the economy which could warrant a faster pace of rate increases. Major economic reports (related consensus forecasts; prior data) for the upcoming week include Tuesday: November Housing Starts (1248k, 1290k); Wednesday: December 15 MBA Mortgage Applications (--, -2.3%), November Existing Home Sales (5.52m, 5.48m); Thursday: December 16 Initial Jobless Claims (233k, 225k), 3Q GDP(3.3%, 3.3%), 3Q GDP Price Index (2.1%, 2.1%), November Leading Index (0.4%, 1.2%); Friday: University of Michigan Sentiment (97.2, 96.8), November Durable Goods (2.1%, -0.8%), Personal Income (0.4%, 0.4%), and Personal Spending (0.5%, 0.3%).

## US Equities

| Weekly Index Performance: | | Market Indicators: | |
|---|---|---|---|
| DJIA: | 24,651.74 (1.34%) | Strong Sectors: | Telecom., Info. Tech. |
| S&P 500: | 2,675.81 (0.95%) | | Health Care |
| S&P Midcap: | 1,886.67 (-0.17%) | Weak Sectors: | Financials, Materials, |
| S&P Smallcap: | 932.63 (0.54%) | | Utilities |
| NASDAQ Comp: | 6,936.58 (1.43%) | NYSE Advance/Decline: | 1,562 / 1,525 |
| Russell 2000: | 1,530.46 (0.61%) | NYSE New Highs/New Lows: | 336 / 107 |
| | | AAII Bulls/Bears: | 45.0% / 28.1% |

The S&P 500 index closed last week at an all-time high of 2675. This came after a see-saw week where equity market returns continued to swing as the odds of Congress passing sweeping tax reform ebbed and flowed. Equities first reached an all-time high on Tuesday, after the participants in the House and Senate tax conference committee announced they had reached a tentative deal. The optimism lasted until Thursday, when markets fell, after Senator Marco Rubio stated he would not vote for tax cuts unless the level of refundable child tax credit grew significantly. All was well to close out last week, after the refundable portion of the $2000 per child tax credit was reportedly raised from $1100 to $1400 per child. The full bill was available late Friday night and is expected to be voted on by mid-week. If the bill quickly passes both the House and the Senate as expected, President Trump could sign it before Christmas. Telecommunication services was the top performing sector last week. Much of the performance came from **Verizon Communications**, up 3% last week, and **AT&T Inc.,** up 4% last week, on news that the Federal Government was rolling back net neutrality regulations. Also, Verizon announced a $2.5b deal to stream in-market NFL games through the 2022 season. **Twenty-First Century Fox Inc.** announced a pending deal that **Walt Disney Co.** would buy many of their assets in an all-stock transaction. The agreement comes with Fox spinning of a substantial portion of their business, including Fox News and Fox Business, while obtaining a 25% equity stake in Disney. The news of a pending acquisition pushed Disney shares up 6.7% and Fox up 3.8%. Looking towards the end of 2017 the job market, wage market, regulatory environment, Federal Reserve and corporate tax environment all appear to be accommodative for equities. Valuations on the S&P 500 remain toward the higher end historically, and corporate earnings growth will be needed to fuel gains into 2018. According to Bloomberg, the estimated S&P 500 EPS growth for 2018 is 19.7%, which is expected to be fueled by lower taxes and higher GDP growth.