US Economy and Credit Markets

Yields and Weekly Changes:

3 Mo. T-Bill:	0.043 (unch.)	GNMA (30 Yr) 6% Coupon:	110-21+/32 (2.85%)
6 Mo. T-Bill:	0.046 (-0.3 bps)	Duration:	3.88 years
1 Yr. T-Bill:	0.071 (1.0 bps)	Bond Buyer 40 Yield:	3.36 (unch.)
2 Yr. T-Note:	0.221 (0.9 bps)	Crude Oil Futures:	71.81 (-2.75)
3 Yr. T-Note:	0.428 (3.5 bps)	Gold Spot:	1812.05 (3.73)
5 Yr. T-Note:	0.773 (-1.2 bps)	Merrill Lynch High Yield Indices:	
10 Yr. T-Note:	1.290 (-6.9 bps)	U.S. High Yield:	4.61 (4pbs)
30 Yr. T-Bond:	1.919 (-7.0 bps)	BB:	3.63 (2 bps)
		B:	5.19 (5 bps)

Federal Reserve Chairman Jerome Powell presented to Congress last week and indicated that the central bank would raise interest rates should inflation show any indication of being out of control but he repeatedly stated that he expects price inflation to be transient in nature. While granting that inflation is currently higher and more persistent than expected, he continues to believe it will reverse with the resolution of supply bottlenecks. He also discussed the monthly rate of Treasury and mortgage securities purchase, currently at $120 billion, and noted that while some members would like to taper purchases, he didn't feel it was an urgent step needing to be taken. The market seems to be agreeing with the Chairman's assessment as 10-year treasury yields fell for a third straight week. The upward price action in bonds has defied expectations of reopening strength leading to a steepening of the yield curve. As concerns about the delta variant, global reopening, and economic growth mount, there has been a correspondent rise in negative yielding debt. According to Bloomberg, negative-yielding debt rose $730 billion, to $15.2 trillion, for the week ending July 16. These concerns and an OPEC+ spat have also weighed on oil prices as the market worries a supply gut could be forthcoming. Major economic reports (related consensus forecasts, prior data) for the upcoming week include Tuesday: June Housing Starts (1.59M, 1.57M); Wednesday: July 16 MBA Mortgage Applications (N/A, 16.0%); Thursday: July 17 Initial Jobless Claims (350K, 360K), June Leading Index (0.9%, 1.3%), and June Existing Home Sales (5.9M, 5.8M); Friday: July preliminary Markit US Manufacturing PMI (62.0, 62.1).

US Equities

Weekly Index Performance:		Market Indicators:	
DJIA:	34,687.85 (-0.52%)	Strong Sectors:	Utilities, Cons. Staples,
S&P 500:	4,352.34 (-0.96%)		Real Estate
S&P Midcap:	2,709.57 (-3.29%)	Weak Sectors:	Materials, Cons. Discretionary,
S&P Smallcap:	1,369.68 (-4.55%)		Energy
NASDAQ Comp:	14,639.33 (-1.87%)	NYSE Advance/Decline:	896 / 2,564
Russell 2000:	2,305.76 (-5.11%)	NYSE New Highs/New Lows:	382 / 94
		AAII Bulls/Bears:	36.2% / 26.8%

The S&P 500 index closed at an all-time high on Monday but traded lower the rest of the week to post a -0.96% return last week. The Consumer Price Index was released up 0.9% for the month of June and up 5.4% year-over-year. Both exceeded economist expectations. However, portions of the headline inflation were in areas that are considered temporary. For instance, used car and truck prices were up 10.5% in the month of June, primarily due to a restricted supply of semiconductors used to make new cars hampering new car production. This type of inflation is likely temporary, or transitory, in nature until supply lines catchup to economic demands post COVID shutdowns. Later in the week, **Taiwan Semiconductor Manufacturing Company**, the world's largest semiconductor manufacturer, announced they expect the automotive chip shortage to start easing over the next few months. They expect to increase microcontrollers by 60% in 2021 compared to 2020 but could see the overall semi shortage lasting into 2022. Financial markets are still struggling to digest just how much of the headline inflation is transitory and how much is fueled by the growing US money supply. OPEC+ struck an oil production deal after a standoff between the UAE and Saudi Arabia was negotiated. Oil closed near multi-year highs at $75.25 on Tuesday but after the deal was struck the price of oil sold off to close the week at $71.81. Earnings season began in earnest last week after the five largest US banks announced quarterly results. **JPMorgan Chase & Co.**, **Bank of America Corp.**, **Wells Fargo & Co.**, **Citigroup Inc.** and **Goldman Sachs Group Inc.** all reported strong quarterly results and offered outlooks that continue to show a strong U.S. economy. Looking ahead to next week, earnings season is scheduled to continue as bellwether names **Johnson & Johnson**, **The Coca-Cola Co.**, **Netflix Inc.**, **Verizon Communications Inc.** and **Intel Corp.** are all expected to report quarterly results.