## US Economy and Credit Markets

**Yields and Weekly Changes:**

| | | | |
|---|---|---|---|
| 3 Mo. T-Bill: | 4.664 (3.6 bps) | Bond Buyer 40 Yield: | 4.30 (1 bps) |
| 6 Mo. T-Bill: | 4.818 (0.8 bps) | Crude Oil Futures: | 79.68 (-1.63) |
| 1 Yr. T-Bill: | 4.644 (-0.4 bps) | Gold Spot: | 1,928.04 (+1.96) |
| 2 Yr. T-Note: | 4.199 (2.9 bps) | Merrill Lynch High Yield Indices: | |
| 3 Yr. T-Note: | 3.897 (7.0 bps) | US High Yield: | 8.19 (-6 bps) |
| 5 Yr. T-Note: | 3.610 (4.9 bps) | BB: | 6.66 (-2 bps) |
| 10 Yr. T-Note: | 3.503 (2.5 bps) | B: | 8.42 (-8 bps) |
| 30 Yr. T-Bond: | 3.619 (-3.6 bps) | | |

U.S. Treasury bond yields were mixed across the yield curve last week as investors digested economic data during the Federal Reserve's blackout period, which limits Federal Reserve officials speaking engagements leading up to the rate decision meeting on February 2nd. In response, analysts and pundits weighed in on the size of the Federal Reserve's next interest rate hike. According to the CME FedWatch Tool, by the end of last week the probability of 25 basis point increase reached 99.2%. Treasury yields rose on Thursday as domestic GDP data came in better than expected. Real GDP for the fourth quarter increased at a 2.9% annual rate, which was higher than expected 2.6% increase. Though the headline data looks favorable, strong inventories and personal consumption were the largest contributors, which will inevitably slow with the rest of the economy in 2023. The week ended with the Federal Reserve's preferred measurement of inflation, the PCE Deflator, pulling back to 5.0% in December from 5.5% in November, indicating inflation is slowing. Major economic reports (related consensus forecasts, prior data) for the upcoming week include Monday: January Dallas Fed Manufacturing Cost Index (-15.0, -18.8); Tuesday: 4Q Employment Cost Index (1.1%, 1.2%), November FHFA House Price Index MoM (-0.5%, 0.0%), January MNI Chicago PMI (45.0, 45.1) and January Conference Board Consumer Confidence (109.0, 108.3); Wednesday: January 27 MBA Mortgage Applications (N/A, 7.0%), January ADP Employment Change (160k, 235k), January ISM Manufacturing Index (48.0, 48.4), January ISM Prices Paid Index (41.8, 39.4) and February 1 FOMC Rate Decision (upper Bound) (4.75%, 4.50%); Thursday: January 28 Initial Jobless Claims (200k, 186k), January 21 Continuing Claims ( 1678k, 1675k), December Factory Orders (2.3%, -1.8%) and December Final Durable Goods Orders (N/A, 5.6%); Friday: January Change in Nonfarm Payrolls (185k, 223k), January Unemployment Rate ( 3.6%, 3.5%) and January ISM Services Index (50.5, 49.2).

## US Equities

| Weekly Index Performance: | | Market Indicators: | |
|---|---|---|---|
| DJIA: | 33,978.08 (1.81%) | Strong Sectors: | Consumer Discretionary, |
| S&P 500: | 4,070.56 (2.48%) | | Info Tech, Comm Services |
| S&P Midcap: | 2,619.47 (2.39%) | Weak Sectors: | Health Care, Utilities, |
| S&P Smallcap: | 1,248.59 (2.07%) | | Consumer Staples |
| NASDAQ Comp: | 11,621.71 (4.32%) | NYSE Advance/Decline: | 2,406 / 906 |
| Russell 2000: | 1,911.46 (2.37%) | NYSE New Highs/New Lows: | 269 / 31 |
| | | AAII Bulls/Bears: | 28.4% / 36.7% |

The S&P 500 Index returned 2.48% last week. After declining 5.76% in December of 2022, equities have shown resilience in January with the index climbing 6.11% YTD in 2023, posting only one negative week out of the four thus far in 2023. The Federal Reserve's dual mandate of maximum sustainable employment and price stability has put them in an aggressive stance to combat the high inflation the economy has experienced over the past several months. This in turn has caused increased concerns over the equity markets with fears the Fed might slow the economy too fast or too much through their rate hikes and push the economy into recession. However, the U.S. economy has shown its own resiliency as 4th quarter 2022 GDP numbers released last week were higher than expected and U.S. initial jobless claims were reported at 186K last week, lower than the consensus estimate of 205K and previous week's claims of 190K. Declining inflation readings since June and other recent economic indicators have also increased hopes that the FOMC may begin to slow their rate hikes and achieve a soft landing, which has given a recent boost to equities. Consumer discretionary was the best performing sector in the S&P 500 Index last week, followed by information technology and communication services. Consumer discretionary stock **Tesla Inc.** was the best performing stock in the index last week, returning 33.34% to finish the week at $177.90. The company reported earnings last week and the stock jumped on better than expected results. After hitting a closing high of $409.97 in late 2021, the stock declined 65% in 2022 and on the first day of trading in 2023 the stock hit a closing low of $108.10, a level not seen since August 2020. **Intel Corp** opened down on Friday after releasing their bleak earnings announcement which revealed a surprise loss and missed revenue expectations by a significant margin. Earnings announcements expected this week include **Apple Inc.**, **Alphabet Inc.**, **Amazon.com Inc.**, **Exxon Mobil Corp**, **Meta Platforms Inc.**, **McDonald's Corp**, **Caterpillar Inc.**, and many more.

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