US Economy and Credit Markets

Yields and Weekly Changes:

3 Mo. T-Bill:	4.841 (6.0 bps)	Bond Buyer 40 Yield:	4.71 (4 bps)
6 Mo. T-Bill:	5.111 (2.5 bps)	Crude Oil Futures:	79.68 (3.36)
1 Yr. T-Bill:	4.997 (0.2 bps)	Gold Spot:	1,856.48 (45.44)
2 Yr. T-Note:	4.856 (4.3 bps)	Merrill Lynch High Yield Indices:	
3 Yr. T-Note:	4.595 (5.8 bps)	US High Yield:	8.62 (-12 bps)
5 Yr. T-Note:	4.246 (3.1 bps)	BB:	7.21 (-7 bps)
10 Yr. T-Note:	3.952 (0.8 bps)	B:	8.76 (-17 bps)
30 Yr. T-Bond:	3.876 (-5.5 bps)		

Treasury yields continued to increase last week, with the 10-year Treasury yield briefly topping 4% as the market grapples with persistent inflation. Economic data released last week showed the ISM Manufacturing Index missed expectations and remained in contraction territory in February. The same report showed the ISM Prices Index unexpectedly moved from decreasing to increasing, with raw materials prices rising for the first time since September. Unlike manufacturing, the ISM Services Index remained in expansion territory in February and expanded by more than forecast. Prices paid by servicers continued to increase but at a slower rate. Those reports follow data from the prior week showing the Fed's preferred inflation gauge was higher than expected. Taken together, the data suggests persistent inflation and continued rate hikes. Initial jobless claims were lower than forecast for the week ending on February 25. The four-week moving average, which is less volatile, increased to 193,000. The historically low claims highlight the labor market's continued strength despite the Fed's rate hikes. The data sent Treasury yields higher. The Fed reiterated in its semi-annual report to Congress released Friday that further rate increases are needed to implement monetary policy that is "sufficiently restrictive" to bring inflation back down to its 2% target. Consequently, the market has adjusted its year-end fed funds rate expectations from 4.5% at the beginning of this year to 5.3% at the end of last week. Major economic reports (related consensus forecasts, prior data) for the upcoming week include Monday: January Final Durable Goods Orders (-4.5%, -4.5%), January Factory Orders (-1.8%, 1.8%); Wednesday: March 3 MBA Mortgage Applications (N/A, -5.7%), February ADP Employment Change (200k, 106k), January Trade Balance (-$68.7b, -$67.4b); Thursday: March 4 Initial Jobless Claims (195k, 190k); Friday: February Change in Nonfarm Payrolls (200k, 517k).

US Equities

Weekly Index Performance:		Market Indicators:	
DJIA:	33,390.97 (1.85%)	Strong Sectors:	Materials, Industrials Comm. Services
S&P 500:	4,045.64 (1.96%)		
S&P Midcap:	2,648.27 (1.88%)	Weak Sectors:	Health Care, Cons. Staples Utilities
S&P Smallcap:	1,269.75 (1.81%)		
NASDAQ Comp:	11,689.01 (2.61%)	NYSE Advance/Decline:	878/2,175
Russell 2000:	1,928.26 (2.05%)	NYSE New Highs/New Lows:	44/47
		AAII Bulls/Bears:	23.4%/44.8%

The S&P 500 gained 1.9% during the week that closed the books on the month of February and gave indications of what might happen in global economies for the rest of the year. February was generally a negative month for stocks after a risk-on rally in January. The market incrementally priced in a higher likelihood of sustained inflation and Fed hikes to help combat it. The dollar rallied in February by 3.6%, reversing the course of an 11% correction that began in September 2022. US consumer demand as measured by the Conference Board came in well below estimates on Tuesday while home prices declined for the sixth straight month. On Wednesday, data on Chinese manufacturing was surprisingly strong reading a 52.6 (expansion) level, the highest since 2012, after troughing at 47 (contraction) just two months earlier. China has experienced a resurgence of economic activity after the relaxing of Covid constraints and the expiration of Lunar New Year celebrations which both contributed to an artificially low base in January. The best performing sector in the S&P 500 this week was Materials which likely responded to the increase in activity from China and persistent inflation around the globe. The worst performing sector was Utilities which continues to be the worst performing sector year to date. Utilities often serve as a proxy to bonds but equity investors have been finding yield elsewhere as the indicated dividend yield of the Utilities sector is 3.2% which is lower than the yield of the ten year treasury bill (4%). The best performing stock in the S&P 500 was First Solar (FSLR, +29.6%) which reported its first billion-dollar revenue quarter since 2019, managed costs to beat EPS expectations, and extended their "sold out" outlook through 2029. The bottom performing member of the S&P 500 was Dish Network Corp (DISH, -15.4%) as the telecom company reported a ransomware data breach and sell side analysts punished the stock with major price target cuts during the week. At this point, effectively all of the members of the S&P 500 have reported 4Q22 earnings with only Ulta Beauty, Oracle, Campbell Soup, and Brown-Forman left to report along with a slew of labor market data to come in the next week.