US Economy and Credit Markets

Yields and Weekly Changes:

3 Mo. T-Bill:	5.336 (-1.7 bps)	Bond Buyer 40 Yield:	4.85 (32 bps)
6 Mo. T-Bill:	5.220 (5.4 bps)	Crude Oil Futures:	73.41 (0.73)
1 Yr. T-Bill:	4.840 (18.5 bps)	Gold Spot:	2,029.49 (-19.57)
2 Yr. T-Note:	4.385 (24.0 bps)	Merrill Lynch High Yield Indices:	
3 Yr. T-Note:	4.160 (23.3 bps)	US High Yield:	8.05 (14 bps)
5 Yr. T-Note:	4.051 (22.1 bps)	BB:	6.64 (14 bps)
10 Yr. T-Note:	4.123 (18.4 bps)	B:	8.19 (16 bps)
30 Yr. T-Bond:	4.328 (15.3 bps)		

Treasury yields climbed last week as solid retail sales caused the market to scale back expectations of aggressive Fed rate cuts this year. Retail sales rose 0.6% in December, which was better than expected and higher than November's 0.3% gain, while holiday sales in November and December set a record. Adjusted for inflation, retail sales grew a more modest 0.2% in December. Federal Reserve Bank of Atlanta President Raphael Bostic also reiterated last week that he does not expect the Fed to cut interest rates until "sometime in the third quarter," saying he wants to see more evidence that the Fed is on track to reach its 2% inflation target. The University of Michigan Consumer Sentiment Index increased sharply in January, well above expectations, following a sharp increase in December. The report showed broad-based improvements in consumer sentiment across demographics as inflation has cooled while the labor market has remained strong, strengthening income expectations. Both year-ahead and long-run inflation expectations also improved. Existing home sales last year dropped to the lowest level since 1995 amid high mortgage rates and limited inventory. Major economic reports (related consensus forecasts, prior data) for the upcoming week include Monday: December Leading Index (-0.3%, -0.5%); Wednesday: January 19 MBA Mortgage Applications (N/A, 10.4%), January Preliminary S&P Global US Manufacturing PMI (47.7, 47.9); Thursday: January 20 Initial Jobless Claims (200k, 187k), 4Q Advance GDP Annualized QoQ (2.0%, 4.9%), December Preliminary Durable Goods Orders (1.0%, 5.4%), December New Home Sales (647k, 590k); Friday: December Personal Income (0.3%, 0.4%), December Personal Spending (0.4%, 0.2%).

US Equities

Weekly Index Performance:		Market Indicators:	
The Dow®	37,863.80 (0.76%)	Strong Sectors:	Info Tech, Comm. Services Financials
S&P 500®	4,839.81 (1.19%)		
S&P Midcap 400®	2,740.96 (0.46%)	Weak Sectors:	Real Estate, Energy Utilities
S&P Smallcap 600®	1,270.34 (0.05%)		
NASDAQ Composite®	15,310.97 (2.26%)	NYSE Advance/Decline:	1,115 / 1,821
Russell 2000®	1,944.39 (-0.33%)	NYSE New Highs/New Lows:	180 / 125
		AAII Bulls/Bears:	40.4% / 26.8%

The S&P 500 returned 119 basis points last week and hit a new all-time high of 4839.81 on Friday as the index was led higher by the Information Technology and Communication Services Sectors. The Semiconductor and Semiconductor Equipment industry experienced broad-based strength returning 8.44% during the week. The top three performers in the industry were **Advanced Micro Devices**, **Applied Materials**, and **Broadcom,** returning 18.88%, 11.03%, and 9.35%, respectively. The strength in Semiconductors came after **Taiwan Semiconductor Manufacturing Co.,** the main chipmaker for **Apple** and **Nvidia,** reported fourth quarter earnings and said it expects revenue growth of at least 20% bringing optimism to the industry after weak sales in 2023. Some strategists view last week's performance as an indication that the AI rally of 2023 still has room to run. According to Michael Hartnett, the Chief Strategist of Bank of America, US equity funds overall saw $4.3 billion in redemptions in the week through January 17th while tech funds saw the biggest two-week inflow since August 2023 at $4 billion. The worst performing sector in the S&P 500 was the Utilities sector which ended the week down 3.70%. The rate sensitive sector saw broad based weakness as only 2 of its 30 constituents ended the week in the green following a selloff in treasuries. Investors are optimistic that the S&P 500 can rally more as historically the index has risen 13 out of 14 times by a median of 13% after hitting a new high. While many are optimistic others remain cautious. The swap market is still currently pricing in fast and deep rate cuts in 2024, but if inflation continues to be stubborn and rate cuts come at a later date or slower pace it may put downward pressure on equities. Looking forward this week will be packed with news for investors as 74 companies in the S&P 500 are expected to report results including **Tesla Inc**, **Netflix Inc**, **Johnson & Johnson**, and **Blackstone Inc**. Additionally the Personal Consumption Expenditure Index or PCE, the Fed's preferred inflation measure, is set to be released on Friday. Any surprises in the release may sour the current sentiment that equities have room to run.