US Economy and Credit Markets

Yields and Weekly Changes:

3 Mo. T-Bill:	5.385 (-1.6 bps)	Bond Buyer 40 Yield:	4.40 (-13 bps)
6 Mo. T-Bill:	5.369 (-1.0 bps)	Crude Oil Futures:	75.53 (-1.46)
1 Yr. T-Bill:	5.169 (-0.6 bps)	Gold Spot:	2,293.78 (-33.55)
2 Yr. T-Note:	4.887 (1.4 bps)	Merrill Lynch High Yield Indices:	
3 Yr. T-Note:	4.669 (-1.1 bps)	U.S. High Yield:	8.10 (-8 bps)
5 Yr. T-Note:	4.463 (-4.4 bps)	BB:	6.73 (-6 bps)
10 Yr. T-Note:	4.434 (-6.5 bps)	B:	7.92 (-8 bps)
30 Yr. T-Bond:	4.555 (-9.3 bps)		

Treasury Yields dropped moderately over the course of the week on mixed economic data and speculation about the next move from the Federal Reserve Bank. On Monday, the May ISM Manufacturing number dropped to 48.7 from a prior month's reading of 49.2, as consensus expectations called for an increase to 49.5. This unexpected drop caused investors to speculate that the Fed would have to do more easing to help the economy and Treasury yields dropped significantly. This drop in yields continued through Wednesday as the ADP Employment Change was also lower than consensus expectations, fueling speculation that the Fed may provide more than one rate cut before the end of the year. However, the dovish optimism was replaced with hawkish concern on Friday as the May Change in Nonfarm Payrolls increased 272k, compared to consensus estimates of 180k. This led investors to speculate that the economy is not cooling as fast as hoped and that the Fed would have to hold off on rate cuts a while longer. The market implied expectations for rate cuts started the week pricing in a full rate cut by the December meeting and a 45% chance of a second cut, which rose to a 98% chance of a second rate cut by Thursday, before dropping back down to just a 47% chance of a second cut on Friday. The market implied Federal Funds Rate at the end of 2024 started the week at 4.965, dropping to 4.836 on Thursday, before rising back to 4.963 on Friday. Major economic reports (related consensus forecasts, prior data) for the upcoming week include: Wednesday: June 7 MBA Mortgage Applications (n/a, -5.2%), May CPI (0.1%, 0.3% MoM) (3.4%, 3.4% YoY), June 12 FOMC Rate Decision (Upper Bound) (5.50%, 5.50%); Thursday: June 8 Initial Jobless Claims (225k, 229k), May PPI Final Demand (0.1%, 0.5% MoM) (2.5%, 2.2% YoY); Friday: June Prelim. U. of Mich. Sentiment (72.6, 69.1).

US Equities

Weekly Index Performance:		Market Indicators:	
The Dow®	38,798.99 (0.33%)	Strong Sectors:	Info Tech, Health Care
S&P 500®	5,346.99 (1.36%)		Comm. Services
S&P MidCap 400®	2,920.70 (-2.04%)	Weak Sectors:	Materials, Energy
S&P SmallCap 600®	1,296.43 (-2.46%)		Utilities
Nasdaq Composite®	17,133.13 (2.4%)	NYSE Advance/Decline:	1,115 / 1,777
Russell 2000®	2,026.55 (-2.07%)	NYSE New Highs/New Lows:	264 / 114
		AAII Bulls/Bears:	39% / 32%

The S&P 500 rose 136 bps last week and was led higher by the Information Technology sector which returned 3.83%. The best performer in the Information Technology sector and index overall was **Hewlett Packard Enterprise** which rallied 13.48% after the company reported earnings last Tuesday. The computer hardware and storage company beat expectations and raised full year guidance due to strong AI server demand which is expected to remain strong through the back half of the year. While **Hewlett Packard** was the top performer in the IT sector much of the talk on the street focused on **NVIDIA Corporation** which returned 10.27%. The GPU designer's market cap closed above $3 trillion for the first time on Wednesday, surpassing **Apple Inc.** as the second largest company in the world only behind **Microsoft Corporation**. While **NVIDIA** experienced a slight pull back ending the week once again just behind **Apple**, investors remain impressed as its market cap sat just below $2 trillion in late April. The worst performing sector in the S&P 500 was the Utilities sector which fell 3.81%. The worst performer in the Utilities sector and S&P 500 overall was **Vistra Corporation** which returned -14.14%. The independent power producer has returned 121.59% year-to-date driven by bets on data center fueled electricity demand but investors appeared to be taking some profit after the company outlined plans to add natural gas capacity in Texas that could potentially weigh on power prices. Last week ended on a mixed note as payroll and wage data came in stronger than anticipated. The strong reading calmed worries the US is hurling toward some economic precipice but also reinforced the notion that rate cuts don't appear appropriate in the near term. Economists at **Citigroup** and **JPMorgan Chase** were among the few still predicting the Fed's first rate cut would come in July, following the jobs data both moved their predictions for the first cuts to September and November, respectively. Now that vast majority of companies in the S&P 500 have reported earnings focus will likely shift back to macroeconomic data. Wednesday is likely to provide the most insights as CPI data is released in the morning and the FOMC decision is in the afternoon. Decelerating inflation and resilient employment would be supportive of some analysts calls for a "Goldilocks" or no landing scenario. The Fed meeting is viewed as one of the most important of the year as it may provide the clearest timetable for rate cuts following actions taken by several other central banks.