

Financial Week Newsletter

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SMITH
SHELLNUT
WILSON

...as summarized by Smith Shellnut Wilson

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Equity Markets

- U.S. stock indexes posted their second consecutive weekly gain after the October rout, leaving them with solid single-digit returns so far in 2018.

	11/2 Close	11/9 Close	Price Change
Dow Jones	25,271	25,989	Up 2.8%
S&P 500	2,723	2,781	Up 2.1%
NASDAQ	7,357	7,407	Up 0.7%
KBW Bank Index	99.37	101.18	Up 1.8%

Financials

- Regulators closed no banks last week, leaving year-to-date closures at zero.
- More than 5,000 community banks will be eligible for reduced reporting requirements under a proposed rule released by banking regulators last week; the proposal raises the threshold to qualify for shortened call reports from \$1 billion to \$5 billion.

Credit Markets

- U.S. Treasury yields closed mixed ahead of the holiday weekend for the bond market, as investors digested the latest economic data and Fed pronouncements.

	11/2 Close	11/9 Close	Yield Change
3-month Tsy	2.32%	2.35%	Up 3 bps
2-year Tsy	2.91%	2.93%	Up 2 bps
5-year Tsy	3.03%	3.04%	Up 1 bp
10-year Tsy	3.21%	3.19%	Down 2 bps

- Edward Altman, professor emeritus at New York University's Stern School of Business and the man who developed the Z-score method for predicting corporate bankruptcies more than 50 years ago, says that the next recession will be characterized by many more bankruptcies and defaults than in previous downturns due to excessive corporate leverage, and that the corporate failures will be larger than ever before.
- After beleaguered hedge fund managers had their worst month in seven years, many are bracing for an industry D-Day on November 15th, the deadline for investors to put managers on notice to get some – or all – of their money at year end; if history is any guide, the rush for the exits will be swift.

Treasury/Fed/Administration/Congress

- The Federal Reserve left interest rates unchanged at its meeting last week and stayed on course to hike again in December despite recent jitters in financial markets and a critical president; by keeping the door open to a fourth 2018 hike in December, officials are sticking to their gradual upward path, trying to prolong the second-longest U.S. expansion on record without making an error – leaving monetary policy too loose risks stoking excess inflation and asset bubbles, while tightening too fast could cause a recession.

FNMA/FHLMC

- U.S. taxpayers could gain as much as \$125 billion if Fannie Mae and Freddie Mac are freed from government control under a revised blueprint released last week by investment banking firm Moelis & Co; Moelis said the plan would reposition Fannie and Freddie as single-purpose mortgage insurers, rebuild private capital while reducing the federal backstop, and repay the government in full for its support since the companies were seized in 2008.

Economy

- The still-elevated level of consumer confidence in November suggests that consumers largely shrugged off the recent volatility in equity markets, and points to consumption growth remaining strong over the coming months, according to a University of Michigan survey released last week.
- A gauge of U.S. service industries fell by less than forecasted in October from a near-record level, suggesting that the economy's momentum is holding up this quarter, an Institute for Supply Management survey showed last week.
- U.S. job openings fell in September from a record in the previous month while Americans continued to voluntarily leave their positions at the highest rate since 2001, according to Labor Department data; while the number of openings showed slightly less demand for workers, the elevated quit rate continued to indicate that Americans are confident in leaving their jobs for better pay or benefits elsewhere.
- U.S. producer prices in October rose by the most in six years on broad gains in costs for goods and services; the producer-price index rose 0.6% from September and climbed 2.9% from a year earlier after a 2.6% year-over-year gain the prior month.

This Week

Economic data scheduled to be released this week include consumer prices, retail sales and industrial production.

Quote

“Experience is simply the name we give our mistakes.”

--Oscar Wilde

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