Financial Week Newsletter

. . .as summarized by Smith Shellnut Wilson

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Equity Markets

- The U.S. stock market had its worst Thanksgiving-week performance in seven years, as falling technology and energy stocks led to a second consecutive weekly decline.

	11/16 Close	11/23 Close	Price Change
Dow Jones	25,413	24,286	Down 4.4%
S&P 500	2,736	2,633	Down 3.8%
NASDAQ	7,248	6,939	Down 4.3%
KBW Bank Index	100.37	98.07	Down 2.3%

Financials

- Regulators closed no banks last week, leaving year-to-date closures at zero.
- Nearly all large, U.S. headquartered banks reported strong bottom line results on a year-over-year basis for the third quarter, though margin expansion appears to be eroding as deposit betas continue an upward trend, according to Fitch Ratings last week.
- The five largest Wall Street firms have committed to lending at least $3.5 billion each to the industrial giant General Electric, as it faces concerns about the sustainability of its debt. The company has almost $41 billion in credit lines it can draw from, according to its latest quarterly regulatory filing.
- Since Trust Preferred Securities (TruPS) no longer count as Tier 1 capital, will phase out of Tier 2 in the next few years, and don't qualify as TLAC debt, they are turning into expensive funding. Bank of America recently paid a 20-cent premium to redeem its 6.625% TruPS and Goldman Sachs may eventually do the same with its 6.345% TruPS.

Credit Markets

- The yield curve flattened late last week as falling stock and oil prices boosted safe-haven investing, while Fed tightening continues to support short-term rates.

	11/16 Close	11/23 Close	Yield Change
3-month Tsy	2.35%	2.40%	Up 5 bps
2-year Tsy	2.80%	2.81%	Up 1 bp
5-year Tsy	2.88%	2.87%	Down 1 bp
10-year Tsy	3.06%	3.04%	Down 2 bps

Credit Markets cont.

- Credit markets are set for the worst year since the global financial crisis as investors abandon hope of a late-2018 rally. High-yield and investment-grade corporate notes are headed for losses in both euros and dollars, the first time all four asset classes have posted negative total returns since 2008, based on Bloomberg Barclays indexes.

Treasury/Fed/Administration/Congress

- Despite prospects for slowing global economic growth, fading U.S. fiscal stimulus and volatile financial markets, the strength of the U.S. domestic economy will persuade the Federal Reserve to follow through on its planned rate hike in December, as well as two more hikes in the first half of next year, according to Capital Economics last week.

- Fed officials have taken notice of the heightened market nervousness, with one or two of the more dovish non-voting regional Fed Presidents suggesting that a December rate hike might not be a good idea in such an environment, particularly when U.S. inflation shows few signs of climbing decisively above the 2% target.

Economy

- U.S. housing starts increased 1.5% in October, matching consensus expectations. Weak housing data, including plunging homebuilder sentiment, have raised concerns about a downturn in the sector as deteriorating affordability and higher borrowing costs are expected to restrain demand in the first half of 2019.

- Sales of previously owned U.S. homes rose in October for the first time in seven months, suggesting demand is stabilizing at a lower level as available property becomes less scarce.

- Durable goods orders slumped in October, posting their weakest reading since July of last year. The report suggests that the weak third-quarter investment print is more likely a trend than a one-off surprise.

This Week

Economic data scheduled to be released this week include new and pending home sales, personal income and spending, and a second reading on third-quarter GDP.

Quote

"Well done is better than well said."

--Benjamin Franklin

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The source for the information above is Bloomberg News unless otherwise noted.