

# Financial Week Newsletter

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...as summarized by Smith Shellnut Wilson

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## Equity Markets

- U.S. stocks rebounded last week following robust consumer spending data during Black Friday and Cyber Monday, as well as a dovish turn from the Federal Reserve.

	11/23 Close	11/30 Close	Price Change
Dow Jones	24,286	25,538	Up 5.2%
S&P 500	2,633	2,760	Up 4.9%
NASDAQ	6,939	7,331	Up 5.6%
KBW Bank Index	98.07	101.57	Up 3.6%

## Financials

- Regulators closed no banks last week, leaving year-to-date closures at zero.
- The largest U.S. banks should benefit from an exemption to interest write-off limits intended to amplify investment in low-income areas. The new IRS guidance absolves borrowers from interest deduction limits for the financing of domestic constructions project in so-called opportunity zones. U.S. banks will be able to charge significantly more to finance the projects now that borrowers can recoup interest payments by reducing their U.S. taxes.
- General Motors is on the verge of saving what could be billions of dollars, as it will be able to lower its tax bills using the money it loses after shuttering five plants and slashing 14,000 jobs. The company announced last week the restructuring is an effort to increase its focus on electric and autonomous vehicles.
- The cryptocurrency crash of 2018 had its worst week yet, as Bitcoin slipped near \$4,000, extending the Bloomberg Galaxy Crypto Index's decline to 23% on the week.

## Credit Markets

- Treasuries rallied last week, pushing the benchmark 10-year Treasury yield below 3% for the first time since September, on speculation prospects are diminishing for global interest-rate increases next year.

	11/23 Close	11/30 Close	Yield Change
3-month Tsy	2.40%	2.35%	Down 5 bps
2-year Tsy	2.81%	2.79%	Down 2 bps
5-year Tsy	2.87%	2.81%	Down 6 bps
10-year Tsy	3.04%	2.99%	Down 5 bps

## Credit Markets cont.

- Mortgage spreads are widening as mortgage borrowing rates continue to rise. A major challenge for the market is the lack of a so-called marginal buyer such as the central bank or the government sponsored-entities Fannie Mae and Freddie Mac, which has some analysts saying spreads may need to widen further to lure more private investors.

## Treasury/Fed/Administration/Congress

- In what was seen as a shift in tone from remarks last month, Federal Reserve Chairman Jerome Powell said at the Economic Club of New York last week that the Fed's series of rate increases had brought policy to "just below" the neutral level, meaning the central bank was close to the point where it would not be tapping on the brakes or pressing on the gas.
- Federal Reserve Governor Randal Quarles has been named to lead the Financial Stability Board, a move that puts him at the helm of a panel whose global approach to bank regulation is at odds with President Donald Trump's "America First" agenda.

## Economy

- The U.S. economy remained on solid footing in the third quarter, matching previously reported results of growth at a 3.5% annualized rate, as stronger business investment and a bigger boost from inventories cushioned a trade drag that matched the worst since 1984.
- Personal spending, the largest part of the economy, topped the consensus forecast in October, rising 0.6% versus expectations of a 0.4% increase; however, the Federal Reserve's preferred measure of underlying inflation missed forecast and cooled to the slowest since February. A slowdown in core inflation year-over-year was expected and should be temporary, poised to drift higher in 2019.
- Sales of new U.S. homes fell 8.9% in October to the weakest pace since March 2016, as rising borrowing costs and elevated prices keep buyers out of the market.
- Contract signings for previously-owned homes unexpectedly fell in October, reaching the lowest level since mid-2014 amid mounting evidence of a struggling housing market.

## This Week

Economic data scheduled to be released this week include construction spending, factory orders and non-farm payroll growth.

## Quote

"Your actions are your only true belongings."

--Allan Lokos

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