

# Financial Week Newsletter

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...as summarized by Smith Shellnut Wilson

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## Equity Markets

- U.S. equity indexes rose last week on upbeat jobs data and comments by Fed Chairman Powell that emphasized forward flexibility on the part of the Fed.

	12/28 Close	1/4 Close	Price Change
Dow Jones	23,062	23,433	Up 1.6%
S&P 500	2,486	2,532	Up 1.9%
NASDAQ	6,585	6,739	Up 2.3%
KBW Bank Index	85.15	89.18	Up 4.7%

## Financials

- Regulators closed no banks last week, starting the year off on solid footing in the banking sector.

## Credit Markets

- Intermediate-term U.S. Treasury yields fell last week as the Fed adopted a less aggressive tone towards the future course of monetary policy.

	12/28 Close	1/4 Close	Yield Change
3-month Tsy	2.38%	2.41%	Up 3 bps
2-year Tsy	2.52%	2.48%	Down 4 bps
5-year Tsy	2.56%	2.47%	Down 9 bps
10-year Tsy	2.72%	2.64%	Down 8 bps

- For the first month in at least 10 years, there was no U.S. high-yield bond issuance in December as borrowers opted not to test the waters during a period of elevated market volatility.
- The rate on overnight repurchase agreements soared on New Year's Eve by more than 3.5 percentage points to 6.125%, a level not seen since 2001, based on ICAP pricing; while it eased during the first few trading days of 2019, the repo rate is still far from where it was before year-end liquidity issues surfaced.
- A market indicator watched by the Fed as one of the most accurate gauges of economic health is pricing in lower rates for the first time in more than a decade; the little-known "near-term forward spread," which reflects the difference between the forward rate implied by Treasury bills six quarters from now and the current three-month yield, fell to a negative 6.5 basis points last week, the first negative reading since March 2008.

## Treasury/Fed/Administration/Congress

- Federal Reserve Bank of Dallas President Robert Kaplan said the U.S. central bank should put interest rates on hold as it waits to see how uncertainties about global growth, weakness in interest-sensitive industries and tighter financial conditions play out.
- Federal Reserve Chairman Jerome Powell remarked last week that the central bank can be patient as it assesses risks to the U.S. economy and will adjust policy quickly if needed, but made clear he would not resign if President Donald Trump asked him to step aside.

## Economy

- A gauge of U.S. manufacturing plunged last month by the most since October 2008, a fresh sign of deceleration in the economy amid global strains across the sector; the fall in the headline index was driven mainly by sharp declines in new orders and production.
- Factory conditions across Asia's most export-oriented economies slumped in December amid a U.S. China trade war and a fading technology boom, while momentum in the euro region also weakened.
- While the U.S. wrapped up a year of surprisingly strong job growth, with average monthly payroll gains of exceeding 200,000, such gains are unlikely to repeat in the next 12 months, with economic headwinds intensifying for the country and rest of the world; economists surveyed by Bloomberg expect monthly job growth to slow to 155,000 in 2019 and 120,000 in 2020.
- U.S. employers in December added the most workers in 10 months as wage gains accelerated, labor-force participation jumped, and the jobless rate remained at close to a five-decade low, reflecting a robust job market that nevertheless faces mounting risks in 2019; nonfarm payrolls increased by 312,000 in December, easily topping all forecasts, after an upwardly revised 176,000 gain the prior month.

## This Week

Economic data scheduled to be released this week include durable goods orders, new home sales and consumer prices.

## Quote

"I ain't one of those who believes that a half knowledge of a subject is useless, but it has been my experience that when a fellow has that half knowledge he finds it's the other half which would really come in handy."

-- George Horace Lorimer

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

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