

Financial Week Newsletter

...as summarized by Smith Shellnut Wilson

Jan. 14, 2019

SMITH
SHELLNUT
WILSON

SSW Research Department
Office: (601) 605-1776
Email: rayt@ssw1776.com
Website: www.ssw1776.com

Equity Markets

- U.S. equity indexes last week posted their third straight week of gains, the longest such streak since August.

	1/4 Close	1/11 Close	Price Change
Dow Jones	23,433	23,996	Up 2.4%
S&P 500	2,532	2,596	Up 2.5%
NASDAQ	6,739	6,971	Up 3.4%
KBW Bank Index	89.18	90.55	Up 1.5%

Financials

- Regulators closed no banks last week; year-to-date closures remain at zero.

Credit Markets

- Intermediate-term Treasury yields rose slightly last week on economic and political crosscurrents.

	1/4 Close	1/11 Close	Yield Change
3-month Tsy	2.41%	2.42%	Up 1 bp
2-year Tsy	2.50%	2.54%	Up 4 bps
5-year Tsy	2.50%	2.53%	Up 3 bps
10-year Tsy	2.67%	2.70%	Up 3 bps

- Hedge funds posted a loss of 6.7% last year, as measured by the HFRX Global Hedge Fund Index, as managers struggled to capitalize on volatility and were roiled by political uncertainty.
- In the recent equity sell-off, U.S. Treasuries acted as an effective hedge, marking the return of a relationship investors have counted on for decades -- when stocks go down, bonds tend to go up and vice versa; the inverse correlation between stocks and bonds has underpinned the favorite and most basic diversification strategy of fund managers across the globe -- until last year when both markets fell together, a two-decade rarity.

Treasury/Fed/Administration/Congress

- Representative Blaine Luetkemeyer (R–MO) introduced a bill to prohibit federal financial regulators from requiring compliance with a new accounting standard that introduces the current expected credit losses methodology (“CECL”) for estimating allowances for credit losses; the bill would (i) prohibit federal financial regulators from requiring a bank to comply with the CECL accounting standard and (ii) require the SEC to assess a proposed accounting standard’s broader impact before recognizing any such standard as generally accepted.
- Minutes of the Federal Reserve’s December meeting revealed that policy makers took a more cautious approach to further rate increases than their post–meeting statement indicated; “Many participants expressed the view that, especially in an environment of muted inflation pressures, the committee could afford to be patient about further policy firming,” according to minutes of its December 18th – 19th policy meeting released last week in Washington.

Economy

- Expansion in U.S. service industries slowed by more than expected in December as measures of business and employment fell, even though new orders remained strong; the drop follows a sharp plunge last week in the Institute of Supply Management’s gauge of manufacturers, adding to reasons for caution on the U.S. economic outlook even after robust December figures for job and wage growth.
- U.S. job openings fell to a five–month low in November while still exceeding the number of unemployed Americans by almost one million -- data consistent with a tight labor market.
- U.S. consumer debt rose in November at a faster–than–estimated pace as Americans continued to borrow to finance purchases; the report is generally in line with other data pointing to robust U.S. consumer spending, buoyed by tax cuts and a solid job market that added the most workers in 10 months at year–end.
- A key measure of U.S. inflation was little changed in December while falling energy prices dragged down the broader gauge, giving the Federal Reserve little urgency to raise interest rates soon as it signals a more cautious approach in 2019; excluding food and energy, the so–called core consumer price index rose 2.2% from a year earlier for a second month, while headline CPI cooled to a 1.9% annual gain.

This Week

Economic data scheduled to be released this week include new home sales, producer prices, retail sales, and consumer confidence.

Quote

“An intelligent man believes only half of what he hears; a wise man knows which half.”

-- Ivan Panin

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

Smith Shellnut Wilson, LLC
150 Fountains Blvd., Ste A
Madison, MS 39110-6377
Office: (601) 605-1776
Fax: (601) 605-1710
Website: www.ssw1776.com
