

Financial Week Newsletter

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SMITH
SHELLNUT
WILSON

...as summarized by Smith Shellnut Wilson

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Equity Markets

- U.S. stocks rallied last week to the highest level in six weeks as signs the U.S. and China are closing in on a trade truce and strong factory numbers boosted investor confidence in the global economy.

	1/11 Close	1/18 Close	Price Change
Dow Jones	23,996	24,706	Up 3.0%
S&P 500	2,596	2,671	Up 2.9%
NASDAQ	6,971	7,157	Up 2.7%
KBW Bank Index	90.55	97.54	Up 7.7%

- The global rebound in equities from December's gut-wrenching sell-off has many calling it a "melt-up," defined as a sharp and unexpected gain driven by a stampede of investors who don't want to miss out rather than any fundamental improvements; however, a downshift in inflation to below the Fed's target, and the relative improvement in dividend yields versus now-lower bond yields suggests otherwise.

Financials

- Regulators closed no banks last week; year-to-date closures remain at zero.
- Debt-trading revenue at JPMorgan, Citigroup, Goldman Sachs, and Morgan Stanley plunged in the fourth quarter to the lowest levels since the financial crisis, as wild markets kept clients on the sidelines; Wells Fargo also reported a revenue decline for the fourth quarter.

Credit Markets

- Treasury yields rose sharply on Friday, capping a weekly increase, as rallies in the U.S. and global stock markets dampened appetite for safe haven assets.

	1/11 Close	1/18 Close	Yield Change
3-month Tsy	2.42%	2.40%	Down 2 bps
2-year Tsy	2.54%	2.62%	Up 8 bps
5-year Tsy	2.53%	2.62%	Up 9 bps
10-year Tsy	2.70%	2.79%	Up 9 bps

- The U.S. Treasury is exploring how issuance tied to a new benchmark designed to succeed Libor could fit into its overall debt strategy; the department asked primary dealers for their perspectives on the potential debut of issuance tied to the Secured Overnight Financing Rate, or SOFR, in a questionnaire released last week ahead of the Treasury's quarterly refunding announcement later this month.

Credit Markets (cont'd)

- Bank of England Governor Mark Carney last week likened the \$2 trillion leveraged loan market to subprime mortgages that defaulted 10 years ago and triggered a global financial crisis, in a warning to British lawmakers; leveraged loans are made to companies that are highly indebted, and growth has been driven by investment funds through collateralized loan obligations (CLOs) linked to the loans.

Treasury/Fed/Administration/Congress

- Former Federal Reserve Chair Janet Yellen thinks that the central bank may have implemented its last rate hike of this cycle— a faltering global economy whose weakness spills over into the U.S. could push the Fed into a prolonged pause, she told a gathering of retailers in New York last week.

Economy

- The reporting of numerous economic data series, including construction spending, factory orders and home sales, have been postponed indefinitely due to the government shutdown.
- The Council of Economic Advisers stated last week that the administration's estimate of the cost of the government shutdown is a reduction per week of 0.13% in GDP; extrapolating out, that would bring current annualized GDP growth to zero in approximately six months.
- Manufacturers began 2019 on a weaker-than-expected footing as a regional Federal Reserve gauge fell to the lowest in more than a year, adding to signs of a slowing U.S. economy; last month, all five regional Fed factory gauges posted cooler readings, the first time they've fallen in unison since May 2016.
- Headline producer prices fell by 0.2% on a month-over-month basis in December, due largely to a 5.4% drop in the energy index; stripping out food and energy, final demand goods prices rose by a muted 0.1%.

This Week

Economic data scheduled to be released this week include retail sales and the leading economic indicators index.

Quote

“Whatever you are, be a good one.”

-- Abraham Lincoln

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

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