

Financial Week Newsletter

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WILSON

...as summarized by Smith Shellnut Wilson

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Equity Markets

- In a relatively calm trading week, U.S. stocks advanced in response to several stronger-than-expected earnings reports and a dovish stance from the Federal Reserve.

	1/25 Close	2/1 Close	Price Change
Dow Jones	24,737	25,064	Up 1.3%
S&P 500	2,665	2,707	Up 1.6%
NASDAQ	7,165	7,264	Up 1.4%
KBW Bank Index	98.21	96.73	Down 1.5%

Financials

- Regulators closed no banks last week; year-to-date closures remain at zero.
- General Electric Co. soared the most in almost a decade last week as new CEO Larry Culp pushed ahead in tackling two of the biggest concerns hanging over the company: its heavy debt load and a U.S. investigation into its old subprime lender. The company settled with the Justice Department over its subprime-mortgage unit for less than investors feared.
- The Trump administration's push to free Fannie Mae and Freddie Mac from federal control will likely start with the White House calling on federal agencies to put forth ideas for a legislative and regulatory overhaul of the housing-finance giants.
- U.S. banks have turned to acquisitions of non-bank companies over the last 12 months, as shareholder skepticism, stock-price swings and regulatory scrutiny have all put a chill on regional banks merging with each other.

Credit Markets

- The Fed's dovish stance last week pushed investors to Treasuries, as the 10-year benchmark note fell to its lowest level in a month and the 30-year benchmark yield broke through 3 percent for the first time in eight months.

	1/25 Close	2/1 Close	Yield Change
3-month Tsy	2.38%	2.39%	Up 1 bp
2-year Tsy	2.61%	2.51%	Down 10 bps
5-year Tsy	2.60%	2.50%	Down 10 bps
10-year Tsy	2.76%	2.69%	Down 7 bps

Treasury/Fed/Administration/Congress

- The U.S. Treasury Department indicated last week that the government's borrowing needs are rising faster than previous estimates, as the department expects to issue \$365 billion in debt during the first quarter. The federal budget shortfall is set to swell, driven by tax cuts, spending increases and an aging American population.
- The Federal Reserve may have taken a break, but it hasn't finished raising interest rates, according to a Bloomberg survey of economists, who pushed back the timing of expected hikes in 2019, but not the number, sticking with a forecast for two moves. In contrast, investors have interpreted Fed statements as signaling more than just a pause in rate hikes; pricing of fed funds futures contracts imply an expectation for no hikes in 2019.

Economy

- Fed officials voted last week to hold their benchmark rate steady and delivered an about-face from their policy stance six weeks ago, stating it will be patient on any future interest-rate moves and signaling flexibility on the path for reducing its balance sheet.
- U.S. job growth shattered expectations in January, with nonfarm payrolls growing by 304,000, the most in nearly a year, after a downwardly revised 222,000 gain the prior month, a Labor Department report showed last week. The national unemployment rate ticked higher to 4%, primarily a result of the government shutdown.
- U.S. companies added more workers than forecast in January, as private payrolls increased by 213,000 after a downwardly revised 263,000 gain in December, according to data released last week from the ADP Research Institute.
- The fourth-quarter Employment Cost Index showed that wage pressures continued to mount at year-end, momentum which should carry over into the first half of 2019 as above-trend hiring growth pulls the unemployment rate down further.
- New homes sales in the U.S. surged in November, beating consensus forecasts by a significant margin. The report contrasts with more recent data on existing home sales, which plummeted in December.
- Contract signings to purchase previously owned U.S. homes unexpectedly fell for the third straight month in December, a sign the housing market is struggling amid elevated property prices and borrowing costs.

This Week

Economic data scheduled to be released this week include factory orders and durable goods.

Quote

"Action is the foundational key to all success."

-- Pablo Picasso

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