

Financial Week Newsletter

Aug. 31, 2020

SMITH
SHELLNUT
WILSON

INVESTMENT COUNSEL
AND MANAGEMENT

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

...as summarized by Smith Shellnut Wilson

Equity Markets

- U.S. equity markets rose last week on the back of strong economic data.

	<u>8/21 Close</u>	<u>8/28 Close</u>	<u>Price Change</u>
Dow Jones	27,930	28,654	Up 2.6%
S&P 500	3,397	3,508	Up 3.3%
NASDAQ	11,312	11,696	Up 3.4%
KBW Bank Index	74.21	78.35	Up 5.6%

- Company size and growth rates matter more for U.S. stock market performance this year than they have at any time since the Internet-driven bull market of the 1990s; while the S&P 500 Growth Index has risen 25% this year, the S&P SmallCap 600 Value Index has declined by 19%, according to data compiled by Bloomberg.

Financials

- Regulators closed no additional banks last week; year-to-date closures remain at two.
- Hitting banks with multimillion-dollar fines grabs headlines, but a Federal Reserve cap on Wells Fargo's assets is turning into one of the costliest punishments ever levied by a single regulator, as Wells has missed out on an estimated \$4 billion in profits – and counting – since the unique sanction was imposed in 2018, and it's unclear when the Fed will lift it.
- U.S. bank earnings in the second quarter fell by 70% from a year earlier as lenders struggled to beef up loss reserves, according to a report by the FDIC released last week.

Credit Markets

- The U.S. Treasury curve steepened somewhat last week, suggesting that the bond market is beginning to build in prospects for additional inflation going forward.

	<u>8/24 Close</u>	<u>8/28 Close</u>	<u>Yield Change</u>
3-month Tsy	0.09%	0.10%	Up 1 bp
2-year Tsy	0.14%	0.13%	Down 1 bp
5-year Tsy	0.27%	0.27%	Unchanged
10-year Tsy	0.63%	0.72%	Up 9 bps

Treasury/Fed/Administration/Congress

- Banks that object to FDIC supervisory actions would be able to have their appeals heard by a panel of outside experts with supervisory experience under a proposal announced by the agency; the outside experts would staff the Office of Supervisory Appeals in place of the existing internal FDIC committee that now hears disputes, according to the announcement.
- Federal Reserve Chairman Jerome Powell last week unveiled a new framework for the central bank focusing on a strategy known as “flexible average inflation targeting” that will allow the Fed to tolerate inflation “moderately” above its 2% target; the Chairman also pledged to address “shortfalls” from the “broad-based and inclusive goal” of full employment.

Economy

- U.S. consumer confidence dropped in August to a six-year low as consumers soured on employment prospects and business conditions, dashing hopes for a quick turnaround in consumer spending.
- New-home sales in the U.S. jumped to the highest level in almost 14 years in July as low mortgage rates helped fuel a suburban construction boom; purchases of new single-family homes climbed 13.9% from June, as the median selling price rose 7.2% from a year earlier.
- U.S. orders for durable goods rose in July by a strong 11.2% amid a continued surge in automobile demand, suggesting that factories may help support the economic rebound in coming months.
- U.S. pending home sales rose in July to the highest level since 2005, underscoring the housing market’s sharp recovery after an initial decline at the start of the pandemic.
- Applications for state unemployment benefits declined slightly last week from the week before, but still remained above the 1 million mark, suggesting that the labor market recovery will likely be a gradual one.
- Second-quarter GDP fell at a revised 31.7% annualized pace, little changed from initial reading of a 32.9% decline.

This Week

Economic data scheduled to be released this week include a read on the health of the manufacturing sector in August and August payroll numbers.

Quote

“An election is coming. Universal peace is declared, and the foxes have a sincere interest in prolonging the lives of the poultry.”

-- George Eliot

Smith Shellnut Wilson, LLC
661 Sunnybrook Road, Suite 130
Ridgeland, MS 39157-1813
Office: (601) 605-1776
Fax: (601) 605-1710
Website: www.ssw1776.com
