

# Financial Week Newsletter

Sept. 8, 2020

SMITH  
SHELLNUT  
WILSON

INVESTMENT COUNSEL  
AND MANAGEMENT

SSW Research Department  
Office: (601) 605-1776  
Email: [rayt@ssw1776.com](mailto:rayt@ssw1776.com)  
Website: [www.ssw1776.com](http://www.ssw1776.com)

...as summarized by Smith Shellnut Wilson

## Equity Markets

- U.S. broad-based stock indexes fell last week as the technology sector, in particular, came under selling pressure.

	<u>8/28 Close</u>	<u>9/4 Close</u>	<u>Price Change</u>
Dow Jones	28,654	28,133	Down 1.8%
S&P 500	3,508	3,427	Down 2.3%
NASDAQ	11,696	11,313	Down 3.3%
KBW Bank Index	78.35	79.23	Up 1.1%

- Current market breadth is supportive for stocks, with 83% of the S&P 500 Index members trading above their 50-day moving average, down from 98% in June, but still in line with prior bull markets, according to data compiled by Bloomberg.

## Financials

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

## Credit Markets

- U.S. Treasury yields were little changed last week.

	<u>8/28 Close</u>	<u>9/4 Close</u>	<u>Yield Change</u>
3-month Tsy	0.10%	0.11%	Up 1 bp
2-year Tsy	0.13%	0.15%	Up 2 bps
5-year Tsy	0.27%	0.30%	Up 3 bps
10-year Tsy	0.72%	0.72%	Unchanged

- The Federal Reserve has snapped up \$1 trillion in mortgage bonds since March, a record pace of purchasing, as the U.S. central bank tries to blunt the impact of the COVID-19 recession on American homeowners--it now owns almost a third of bonds backed by home loans in the United States.
- The bond market is giving the Federal Reserve a slight nod on its ability to engender price pressures with its recent policy tweak to an average inflation target; a Fed measure of investors' long-run inflation expectations--known as the five-year forward breakeven inflation rate--has jumped to slightly over 1.70%, its highest level since January.

## Treasury/Fed/Administration/Congress

- Federal Reserve Vice Chair Richard Clarida in a speech last week left open the possibility of employing Treasury yield caps at some point in the future, although he indicated that it's not likely now and reiterated the central bank's rejection of negative interest rates.

## Economy

- The rise in the ISM manufacturing index to 56.0 in August, from 54.2 in July, indicates that the manufacturing sector has continued to recover at a solid pace; the recovery in production is lagging the stronger turnaround in spending, pointing to further gains in production in the months ahead.
- U.S. construction spending barely rose in July as an increase in outlays on private projects was almost offset by a plunge in public construction projects; the Commerce Department reported last week that construction spending in July edged up by 0.1%, after revised June data that showed construction outlays falling by 0.5%.
- U.S. orders for durable goods increased by more than 11% in July amid a continued surge in automobile demand; core capital goods orders, a category that excludes aircraft and military hardware and is seen as a barometer of business investment, rose 1.9%, slightly more than forecast.
- Initial unemployment claims registered 881,000 in the latest reporting week, marking just the second time during the pandemic that new weekly claims came in below 1 million.
- Both exports and imports rebounded sharply in July as cross-border supply chains resume, but the much larger size of imports resulted in a widening of the U.S. trade deficit to \$63.5 billion from \$53.5 billion in June, putting net exports on track to be a drag on third-quarter GDP.
- The small drop in the ISM services index to 56.9 in August from 58.1 in July, may indicate that the expiration of enhanced unemployment benefits at the beginning of the month was starting to weigh on demand, but it may also just reflect some payback after the index overshoot in July.
- The U.S. labor-market rebound continued in August with a 1.37 million increase in non-farm payrolls, including the hiring of 238,000 temporary Census workers, while the unemployment rate fell by almost two percentage points to 8.4%

## This Week

Economic data scheduled to be released this week include consumer and producer price indexes for August.

## Quote

“Without labor, nothing prospers.”

-- Sophocles

---

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](http://www.ssw1776.com)

---