

# Financial Week Newsletter

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...as summarized by Smith Shellnut Wilson

## Equity Markets

- Major stock indices hit fresh all-time highs last week as fiscal-stimulus optimism and positive longer-term outlook driven by the rollout of vaccines continue to support sentiment.

	<u>12/11 Close</u>	<u>12/18 Close</u>	<u>Price Change</u>
Dow Jones	30,046	30,179	Up 0.4 %
S&P 500	3,663	3,709	Up 1.3 %
NASDAQ	12,378	12,756	Up 3.1 %
KBW Bank Index	94.19	93.49	Down 0.7 %

## Financials

- Regulators closed no additional banks last week; year-to-date closures remain at four.
- Last week, the Federal Reserve gave Wall Street banks the green light to resume billions of dollars of stock buybacks, noting that the industry has held up well during the pandemic.
- The Federal Deposit Insurance Corp. approved a final rule on Tuesday governing so-called industrial loan companies that will allow major business, such as Amazon, Facebook and Google, to seek banking charters while escaping capital and liquidity demands.
- General Electric is retiring \$2.2 billion in bonds in an effort to boost its financial position and to reduce net leverage towards its 2.5 times target. The company has slashed debt by about \$16.6 billion this year and by \$30 billion since the start of 2019.

## Credit Markets

- Longer-term Treasury yields increased modestly last week on the back of sentiment surrounding vaccine distribution and hopes for fiscal stimulus.

	<u>12/11 Close</u>	<u>12/11 Close</u>	<u>Yield Change</u>
3-month Tsy	0.07%	0.08%	Up 1 bp
2-year Tsy	0.12%	0.12%	Unchanged
5-year Tsy	0.37%	0.38%	Up 1 bp
10-year Tsy	0.90%	0.95%	Up 5 bp

## Treasury/Fed/Administration/Congress

- The Federal Reserve decided not to extend the weighted average maturity of its asset purchases at its meeting this week, with Chair Jerome Powell arguing that longer-term interest rates are already plenty low enough to bolster the economy through the remainder of the pandemic.
- In one of the most audacious cyber attacks in recent memory, U.S. government agencies, including the U.S. Treasury and Commerce departments, were attacked as part of a global campaign that exploited a flaw in the software updates of Texas-based technology provider SolarWinds Corp.; the hackers are suspected to be part of a notorious group tied to the Russian government, according to the Washington Post.
- The European Central Bank made a stark admission last week as it announced a fresh round of policy measures—even three years from now, it will still be short of its inflation goal of just under 2%, as it presented an inflation estimate of just 1.4%, the lowest three-year forecast the ECB has ever made.
- Fannie Mae and Freddie Mac stocks plunged last week after Treasury Secretary Steven Mnuchin said he's all but ruled out letting them exist U.S. control before he steps down, leaving it to the Biden administration to decide the fate of the mortgage giants.

## Economy

- U.S. manufacturing production rose by more than forecasted in November, as factories continue to rebound toward their pre-pandemic capacity and strength; output at factories increased at 0.8% in November after an upwardly-revised 1.1% gain in October.
- U.S. import prices rebounded less than expected in November as an increase in the cost of petroleum products was offset by cheaper food and motor vehicles, supporting view that inflation could remain moderate amid a resurgence in COVID-19 infections and rising unemployment.
- U.S. retail sales declined 1.1% in November and the prior month was revised to a 0.1% decline, indicating the economic rebound is hitting bumps amid record coronavirus cases and lawmakers' extended wrangling over a new stimulus package.
- Residential starts rose 1.2% to a 1.55 million annualized rate in November, highlighting the strength of a residential housing market that's been supported by strong demand and low rates.

## This Week

Economic data scheduled to be released this week include new and existing home sales, durable goods orders and personal income and spending for November.

## Quote

"The holiday season is a necessity. There has to be one time of year to remind us that we're here for something else besides ourselves."

-- Eric Servareid

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