

# Financial Week Newsletter

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...as summarized by Smith Shellnut Wilson

## Equity Markets

- Stocks were little changed in the holiday shortened week, as investors weighed approval of additional fiscal stimulus against elevated coronavirus infection levels.

	<u>12/18 Close</u>	<u>12/25 Close</u>	<u>Price Change</u>
Dow Jones	30,179	30,200	Up 0.1%
S&P 500	3,709	3,703	Down 0.2%
NASDAQ	12,756	12,805	Up 0.4%
KBW Bank Index	93.49	96.39	Up 3.1%

## Financials

- Regulators closed no additional banks last week; year-to-date closures remain at four.
- The big six U.S. banks have fortified their balance sheets with \$132 billion of excess capital in addition to building loan-loss reserves to \$110 billion, allowing them to comfortably pass the Fed's December stress test and leading to a limited restart of share buybacks in Q1.

## Credit Markets

- The Treasury yield curve steepened to its widest level in four years as risk appetite improved amid signs that negotiators from the U.K. and the European Union have reached the outline of a historic post-Brexit trade deal.

	<u>12/18 Close</u>	<u>12/25 Close</u>	<u>Yield Change</u>
3-month Tsy	0.08%	0.08%	Unchanged
2-year Tsy	0.12%	0.12%	Unchanged
5-year Tsy	0.38%	0.36%	Down 2 bps
10-year Tsy	0.95%	0.93%	Down 2 bps

## Treasury/Fed/Administration/Congress

- The Senate passed a giant year-end spending bill last week combining \$900 billion in COVID-19 relief aid with \$1.4 trillion in regular government funding and a bevy of tax breaks for businesses. “This latest fiscal rescue package will add approximately 1.5% to annualized real GDP growth in the Q1 and close to 2.5% to calendar-year 2021 growth,” according to Mark Zandi, of Moody’s Analytics. President Trump signed the fiscal year 2021 appropriations bill and pandemic relief legislation into law on Sunday night.
- Many Republicans have been vocal about their desire to place stricter limits on the Fed’s exercise of its emergency powers. Senator Pat Toomey, a Republic from Pennsylvania, insisted on tacking a provision onto the \$900 billion stimulus that would prohibit the Fed from restarting programs supporting corporate bonds, small and midsize companies, and municipalities that are set to expire at year end. Democrats initially resisted but have since relented once language from the proposal that also banned similar programs from ever being launched without congressional approval was excised.
- President-elect Joe Biden warned last week the “darkest days” of the coronavirus pandemic were still to come and called on Congress to be ready early next year to produce another stimulus package, despite the difficulties surrounding the most recent one.

## Economy

- U.S. GDP increased 7.5% from the prior period, or at an annualized rate of 33.4%, revised from 33.1%, according to the Commerce Department’s third estimate last week. The record economic rebound was led by manufacturing, health care and restaurants.
- Consumer spending, the backbone of the U.S. economy, fell 0.4% in November after a revised 0.3% gain in the prior month, while filings for unemployment benefits remained at elevated levels last week, the latest signs that the recent surge in COVID-19 cases is sapping economic recovery.
- New-home sales in the U.S. tumbled 11% to a five-month low in November, suggesting red-hot demand is cooling amid resurgent COVID-19 cases and other signs of a slowing economy.
- Sales of previously owned homes fell in November for the first time in six months as surging prices and a record-low supply continue to constrain demand.

## This Week

Economic data scheduled to be released this week include pending home sales and inventories.

## Quote

“Everything comes gradually at its appointed hour.”

-- Publius Ovidius Naso “Ovid”

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