

Financial Week Newsletter

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...as summarized by Smith Shellnut Wilson

Equity Markets

- U.S. equity indexes generally fell last week as investors weighed risks to the economic outlook, including incipient inflation readings and a spike in COVID-19 cases in parts of the world.

| | <u>5/7 Close</u> | <u>5/14 Close</u> | <u>Price Change</u> |
|----------------|------------------|-------------------|---------------------|
| Dow Jones | 34,778 | 34,382 | Down 1.1% |
| S&P 500 | 4,233 | 4,174 | Down 1.4% |
| NASDAQ | 13,752 | 13,430 | Down 2.3% |
| KBW Bank Index | 132.77 | 133.69 | Up 0.7% |

Financials

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

Credit Markets

- U.S. Treasury securities last week shrugged off investor concerns over rising inflation indicators.

| | <u>5/7 Close</u> | <u>5/14 Close</u> | <u>Yield Change</u> |
|-------------|------------------|-------------------|---------------------|
| 3-month Tsy | 0.01% | 0.01% | Unchanged |
| 2-year Tsy | 0.15% | 0.15% | Unchanged |
| 5-year Tsy | 0.78% | 0.81% | Up 3 bps |
| 10-year Tsy | 1.58% | 1.63% | Up 5 bps |

- Rising concern that inflation will push up financing costs is prompting a rush of bond issuance globally to lock in low rates, with a flurry of offerings in Europe and Asia following a jumbo issuance from Amazon.
- The U.S. government's \$40 billion sale of four-week bills was priced at a yield of 0%, the first time that has happened since March 2020, in the early months of the coronavirus pandemic, while the Treasury also sold \$40 billion of eight-week bills at 0.01%—existing rules prevent issuing debt at negative yields at auction.

Treasury/Fed/Administration/Congress

- The Federal Reserve stuck to its strategy of supporting the economy and labor markets with ultra-low interest rates at its most recent gathering of senior central bankers, noting that indicators of economic activity and employment have strengthened amid progress on vaccinations and strong policy support.

Economy

- The median price for a single-family home in the U.S. rose by the most on record in the first quarter, as buyers fought over a dearth of inventory, according to a report by the National Association of Realtors; prices in the first quarter jumped 16.2% from a year earlier to a record high of \$319,200.
- U.S. job openings surged to a record high of 8.12 million in March, underscoring the rapid increase in labor demand as vaccinations accelerate and states reopen their economies.
- U.S. consumer prices rose in April by the most since 2009, intensifying debate about the trajectory of inflation; on a year-over-year basis, headline prices were up by 4.2% for the month, while core prices accelerated to a 3.0% level--both, distorted to the upside by the so-called "base effect" of the pandemic-depressed abnormally low levels of the index components in April 2020.
- Wholesale prices in April rose by 0.6% (6.2% on a year-over-year basis) driven by escalating food prices and adding to evidence that inflation pressures are starting to mount as the country emerges from the pandemic-induced recession last year.
- Powered by consumer spending, the U.S. economy grew at a brisk 6.4% annual rate in the first quarter, following a 4.3% annualized pace in the fourth quarter last year--a show of strength fueled by government aid and a re-opening of economic activities; growth in the April-June period is expected to be faster still, potentially reaching an annualized pace of 10%.
- U.S. manufacturing output rose in April by slightly more than expected, suggesting further progress in a sector buffeted by supply shortages and shipping challenges; factory output increased by 0.4% in April, following an upwardly-revised 3.1% jump in March.

This Week

Economic data scheduled to be released this week include housing starts, building permits, and existing home sales.

Quote

"Reality leaves a lot to the imagination."

-- John Lennon

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