

Financial Week Newsletter

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...as summarized by Smith Shellnut Wilson

Equity Markets

- U.S. stock indexes rose last week on generally upbeat economic reports.

	<u>5/28 Close</u>	<u>6/4 Close</u>	<u>Price Change</u>
Dow Jones	34,529	34,756	Up 0.7%
S&P 500	4,204	4,230	Up 0.6%
NASDAQ	13,749	13,814	Up 0.5%
KBW Bank Index	133.62	134.04	Up 0.3%

Financials

- Regulators closed no additional banks last week; year-to-date closures remain at zero.
- According to the latest FDIC data, community banks reported a 78% increase in quarterly net income on a year-over-year basis in the first quarter, supported by an increase in noninterest income and a decline in provision expense, as net interest margins narrowed to a record low of 3.26% (representing a 27 basis-point decline).

Credit Markets

- Intermediate-term Treasury yields fell slightly last week as market participants grew more comfortable that the current inflation overshoot may prove temporary.

	<u>5/28 Close</u>	<u>6/4 Close</u>	<u>Yield Change</u>
3-month Tsy	0.01%	0.02%	Up 1 bp
2-year Tsy	0.14%	0.15%	Up 1 bp
5-year Tsy	0.80%	0.78%	Down 2 bps
10-year Tsy	1.60%	1.56%	Down 4 bps

- The effective federal funds rate bounced back last week, easing one pressure point pushing the Federal Reserve to adjust its tools used to help control short-term interest rates, even as the fed effective rate remains mired at the lower end of the Federal Reserve's current target range of 0-0.25%.

Treasury/Fed/Administration/Congress

- The Federal Reserve Board last week announced the approval of a final rule amending Regulation D to eliminate references to an interest on required reserves (IORR) rate and to an interest on excess reserves (IOER) rate and replace them with a single interest on reserve balances (IORB) rate, reflecting the Board's March 24, 2020 decision to eliminate all reserve requirements on transaction accounts.

Treasury/Fed/Administration/Congress (cont'd)

- The Federal Reserve announced last week that it plans to start selling its \$13.8 billion portfolio of corporate bonds and exchange-traded funds that it bought during the pandemic, marking another step away from the ambitious slate of pandemic relief efforts that the central bank rolled out to combat a market freeze during the early days of the COVID-19 pandemic.
- U.S. labor market signals are conflicting to an “unprecedented” degree, but those suggesting labor market slack, such as the current low labor force participation rate, should be given more weight than those pointing to tightness, according to a paper published last week by the San Francisco Federal Reserve Bank.

Economy

- The ISM manufacturing purchasing managers’ index rose slightly in May, narrowly topping expectations, even as factories reported intensifying supply-chain pressures.
- The pace of the U.S. recovery picked up somewhat in recent months, sparking price pressures as businesses contended with worker scarcity and rising costs, according to the Federal Reserve’s latest “Beige Book,” a periodic survey by the Fed’s 12 regional banks on the state of the economy.
- The number of Americans seeking unemployment benefits fell for the fifth straight reporting week to a new pandemic low, the latest evidence that the U.S. job market is slowly regaining its health as the economy further reopens.
- U.S. worker productivity rose at an unrevised 5.4% annualized rate in the first quarter, the government confirmed last week, also noting that labor costs grew instead of contracting as previously reported; economists attributed much of the jump in productivity to the hollowing out of lower-wage industries, like leisure and hospitality, that tend to be less productive.
- U.S. job growth picked up in May and the unemployment rate fell, signaling that firms are making some progress in filling a record number of job openings as the economy powers up; payrolls increased by a somewhat disappointing 559,000 last month after a revised 278,000 gain in April, leaving the U.S. labor market still 7.6 million jobs short of pre-pandemic levels.
- U.S. service providers expanded at the fastest pace on record in May, highlighting the rapid improvement in business activity across the country.
- New orders for U.S. factory goods fell more than expected in April as a global semiconductor shortage weighed on the production of motor vehicles and electrical equipment, and appliances and components; the Commerce Department reported last week that factory orders dropped 0.6% in April after increasing 1.4% in March, nevertheless surging 14.2% on a year-over-year basis.

This Week

Economic data scheduled to be released this week include consumer prices and consumer sentiment

Quote

“If you wish to forget anything on the spot, make a note that this thing is to be remembered.”

-- Edgar Allan Poe

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