Financial Week Newsletter

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. . .as summarized by Smith Shellnut Wilson

Equity Markets

- U.S. fell across the board last week as the Federal Reserve's surprise hawkishness upended the reflation trade that has dominated markets this year.

	6/11 Close	6/18 Close	Price Change
Dow Jones	34,480	33,290	Down 3.5%
S&P 500	4,247	4,166	Down 1.9%
NASDAQ	14,069	14,030	Down 0.3%
KBW Bank Index	129.28	119.16	Down 7.8%

Financials

- Regulators closed no additional banks last week; year-to-date closures remain at zero.
- The flattening of the yield curve following last week's FOMC meeting triggered a massive selloff in financials; the Fed, however, is set to release the results of its annual stress tests for the largest U.S. banks on Thursday, which are expected to be favorable and lead to easing of current restrictions.
- Wall Street's pandemic-era trading boom could be drawing to a close, with JPMorgan Chase & Co. CEO Jamie Dimon signaling a 38% decline in trading revenue in the second quarter from a year ago.

Credit Markets

- U.S. Treasuries experienced heightened volatility after the Fed meeting last week, including accelerated flattening of the yield curve as one of the most dovish Fed officials endorsed sooner-than-expected short-term rate hikes.

	6/11 Close	6/18 Close	Yield Change
3-month Tsy	0.02%	0.04%	Up 2 bps
2-year Tsy	0.15%	0.26%	Up 9 bps
5-year Tsy	0.74%	0.88%	Up 14 bps
10-year Tsy	1.45%	1.44%	Down 1 bp

Treasury/Fed/Administration/Congress

- Federal Reserve officials sped up their expected pace of policy tightening at the scheduled FOMC meeting last week amid optimism about the labor market and heightened concerns for inflation. Fed Chair Jerome Powell stated that officials would begin a discussion about scaling back purchases used to support financial markets and the economy during the pandemic.
- FOMC members also released forecasts that show they anticipate two interest-rate increases by the end of 2023 and upgraded estimates for inflation for the next three years. The Fed's GDP forecast was seen expanding 7% this year, up from a prior projection of 6.5%. It maintained the 2022 expansion forecast at 3.3% and raised the 2023 estimate to 2.4%.
- Federal Reserve officials announced last week that funds placed directly with the central bank through its reverse repurchase agreement facility will now earn an annual rate of 0.05%, as compared to 0% before. This also helps to alleviated downward pressure across front-end rate markets, where instruments ranging from Treasury bills to repurchase agreements had been trading at or near 0%.

Economy

- U.S. retail sales fell 1.3% in May after a stimulus-related splurge in the prior two months, suggesting consumers are starting to shift more of their spending to services as the economy reopens.
- Residential starts in the U.S. rose 3.6% last month to a 1.57 million annualized rate, according to government data released last week, while building permits slipped 3% from the prior month.
- Prospective home sellers are finally cashing out, as the number of U.S. homes for sale climbed 6.7% in early June from the same weekly period in May, the biggest increase since COVID-19 lockdowns took hold last year.
- The producer price index for final demand rose 0.8% in May after a 0.6% gain in April, according to data from the Labor Department. The higher-than-expected increases are fueling companies to raise prices on American consumers.

This Week

Economic data scheduled to be released this week include new and existing home sales, personal consumption, and the third estimate of first quarter GDP.

Quote

"I've always been more interested in the future than in the past."

-- Grace Hopper-

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The source for the information above is Bloomberg News unless otherwise noted.