

Financial Week Newsletter

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...as summarized by Smith Shellnut Wilson

Equity Markets

- Broad-based U.S. equity indexes rallied last week on generally positive economic data.

	<u>6/25 Close</u>	<u>7/2 Close</u>	<u>Price Change</u>
Dow Jones	34,434	34,786	Up 1.0%
S&P 500	4,281	4,352	Up 1.7%
NASDAQ	14,360	14,639	Up 1.9%
KBW Bank Index	127.35	125.94	Down 1.1%

Financials

- Regulators closed no additional banks last week; year-to-date closures remain at zero.
- The Federal Reserve last week announced that it will soon release a new tool to help community banks implement the Current Expected Credit Losses (CECL) accounting standard. Known as the Scaled CECL Allowance Estimator or "SCALE," the spreadsheet-based tool draws on publicly available regulatory and industry data to aid community banks with assets of less than \$1 billion in calculating their CECL allowances.

Credit Markets

- U.S. Treasury yields fell last week on declining inflation expectations.

	<u>6/25 Close</u>	<u>7/2 Close</u>	<u>Yield Change</u>
3-month Tsy	0.05%	0.04%	Down 1 bp
2-year Tsy	0.27%	0.24%	Down 3 bps
5-year Tsy	0.92 %	0.86%	Down 6 bps
10-year Tsy	1.53%	1.43%	Down 10 bps

- Yields on longer-dated Treasuries fell last week to their lowest levels in more than a week as the market wound down the second quarter, while the amount of cash flooding into the Federal Reserve's reverse repurchase operation set a new record high as it neared \$1 trillion.

Treasury/Fed/Administration/Congress

- Federal Reserve officials spoke with one voice throughout the pandemic downturn, promising that monetary policy would be set to full-stimulus mode until the crisis was well behind America-- suddenly, they are less in sync, increasingly divided over how to think about and respond to emerging risks after months of rising asset values and faster-than-expected price increases.

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

- Federal Reserve Chairman Jerome Powell says that controlling inflation expectations is key to achieving the central bank's twin goals of price stability and maximum employment. The trouble is that it is far from clear that the Fed can do that as the economy emerges from the pandemic because expectations among consumers can vary widely, depending on their age and gender--and are not particularly sensitive to what the central bank does or says.
- The Federal Reserve will need to begin raising interest rates in late 2022 or early 2023 as increased government spending keeps inflation above its long-run average target, according to a statement released last week by the International Monetary Fund.

Economy

- U.S. home prices jumped the most in more than 30 years in April; nationally, the S&P CoreLogic Case-Shiller index of property values climbed 14.6% on a year-over-year basis, up from a 13.2% increase in March, marking the 11th straight month that price gains accelerated.
- Housing activity appears to have bounced back in May after months of steady decline, a sign that the hot housing market may not be cooling off anytime soon; the National Association of Realtors' Pending Home Sales Index, which tracks the number of homes that are under contract to be sold, rose 8% in May, after having fallen 4.4% in April.
- Applications for the U.S. state unemployment insurance fell by 51,000 to 364,000 in the latest reporting week, reaching a fresh pandemic low and suggesting that dismissals are abating as the economy reopens and labor demand rises.
- U.S. manufacturing grew at a moderate pace in June, but manufacturing employment contracted for the first time in seven months (likely because of widespread shortages of raw materials) as factories struggle to keep up amid fractured supply chains and a disrupted global shipping industry.
- U.S. construction spending fell 0.3% in May, with housing activity slowing and nonresidential construction falling 1.1%.
- The economy added back jobs for a sixth straight month in June, with the pace of job growth picking up speed alongside the reopening economy; non-farm payrolls rose by 850,000 in June, after an upwardly-revised 583,000 gain in May, as the official unemployment rate ticked up a notch to 5.9% from 5.8% in May.

This Week

Economic data scheduled to be released this week include consumer credit and a reading on the health of the services sector.

Quote

"There is no "Republican," no "Democrat," on the Fourth of July—all are "Americans".

-- James Gillespie Blaine

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

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