

Financial Week Newsletter

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...as summarized by Smith Shellnut Wilson

Equity Markets

- Broad-based U.S. equity indexes rallied last week amid optimism over a strong second-quarter earnings season.

	<u>7/16 Close</u>	<u>7/23 Close</u>	<u>Price Change</u>
Dow Jones	34,688	35,062	Up 1.1%
S&P 500	4,327	4,412	Up 2.0%
NASDAQ	14,427	14,837	Up 2.8%
KBW Bank Index	121.43	121.10	Down 0.3%

- The latest round of economic growth and slowdown fears are premature and overblown, according to JPMorgan strategists, as they raised EPS estimates for the S&P 500 companies and boosted their 2021 year-end target for the index to 4,600--representing an 8% increase from current levels.

Financials

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

Credit Markets

- U.S. Treasury yields declined last week on mixed economic news.

	<u>7/16 Close</u>	<u>7/23 Close</u>	<u>Yield Change</u>
3-month Tsy	0.05%	0.05%	Unchanged
2-year Tsy	0.22%	0.20%	Down 2 bps
5-year Tsy	0.78%	0.71%	Down 7 bps
10-year Tsy	1.29%	1.28%	Down 1 bp

- Issuance of variable- and floating-rate notes referencing the secured overnight financing rate (SOFR) has outpaced that of LIBOR-linked debt since March 2020, a trend that is expected to accelerate in the months ahead.
- The imminent return of the U.S. debt ceiling debate is causing angst among money-market traders once again. While the risk that Uncle Sam might default by missing a prepayment on a Treasury bill or two is miniscule, investors are wondering if and how the Treasury can slash its giant cash pile to the level the department has indicated would be consistent with its policies and the 2019 act that suspended the limit.

Treasury/Fed/Administration/Congress

- The FOMC meets again next week, with suggestions by Committee members that the central bank may start to lay out a plan at the meeting for reducing its massive balance sheet.

Economy

- Confidence among U.S. homebuilders pulled back in July to an 11-month low as builders contend with elevated material prices and ongoing supply shortage, according to a National Association of Homebuilders/Wells Fargo report released last week.
- U.S. housing starts in June increased by a greater-than-expected 6.3%, suggesting that residential construction may be stabilizing despite lingering supply-chain constraints and labor shortages; even still, building permits, a proxy for future construction, fell by 5.9% in June, suggesting a more moderate pace of homebuilding in the coming months.
- The number of Americans filing new claims for unemployment benefits unexpectedly rose in the latest reporting week, but that likely does not reflect a material shift in labor market conditions, with another month of strong job growth expected in July.

This Week

Economic data scheduled to be released this week include an advance reading on second-quarter GDP and consumer sentiment for July.

Quote

“Life expectancy would grow by leaps and bounds if green vegetables smelled as good as bacon.”

-- Doug Larson

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