# Financial Week Newsletter

. . .as summarized by Smith Shellnut Wilson

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## Equity Markets

- U.S. stocks fell late last week as the U.S. warned Russia could take offensive military action against Ukraine as early as this week.

| | 2/4 Close | 2/11 Close | Price Change |
|---|---|---|---|
| Dow Jones | 35,090 | 34,738 | Down 1.0% |
| S&P 500 | 4,501 | 4,419 | Down 1.8% |
| NASDAQ | 14,098 | 13,791 | Down 2.2% |
| KBW Bank Index | 140.05 | 141.47 | Up 1.0% |

## Financials

- Regulators closed no additional banks last week; year-to-date closures remain at zero.
- The largest U.S. banks will be tested against a hypothetical massive surge in unemployment and a crash in commercial real estate in the Federal Reserve's annual stress tests, according to scenarios announced Thursday.
- Bank of America Corp.'s consumer clients made $335 billion of total payments in January, up 17% from a year earlier and the second-highest month of spending on record, as the U.S. economy continued its recovery from the coronavirus pandemic.

## Credit Markets

- Short-to-intermediate U.S. Treasury yield surged for a second consecutive week, driven by higher-than-expected inflation data and resulting hawkish comments from the Fed.

| | 2/4 Close | 2/11 Close | Yield Change |
|---|---|---|---|
| 3-month Tsy | 0.23% | 0.36% | Up 13 bps |
| 2-year Tsy | 1.31% | 1.51% | Up 20 bps |
| 5-year Tsy | 1.77% | 1.86% | Up 9 bps |
| 10-year Tsy | 1.91% | 1.94% | Up 3 bps |

- Despite surging for most of last week, Treasury yields staged a rapid correction on Friday after the news broke regarding a possible Russian invasion against Ukraine.
- Across debt markets, borrowing has become more difficult for riskier companies and more expensive for even the most creditworthy, as Central banks around the world that pumped trillions of dollars into markets to keep economies afloat are now rushing to scale back the liquidity and fend off inflation.

## Treasury/Fed/Administration/Congress

- Federal Reserve Bank of St. Louis President James Bullard said he supports raising interest rates by a full percentage point by the start of July, including the first half-point hike since 2000, in response to the hottest inflation in four decades and creating the beginning of last week's selloff in the stock market.
- Overnight index swaps on Friday showed traders expect the Fed's main rate to rise to 1.84% after the December meeting, from the effective rate of 0.08%; Goldman Sachs Group Inc.'s economists are now calling for seven consecutive quarter-point hikes, up from the five they had predicted earlier.

## Economy

- U.S. consumer prices surged 7.5% from a year earlier in January by more than expected, sending the annual inflation rate to a fresh four-decade high and adding more urgency to the Federal Reserve's plans to start raising interest rates; the core inflation measure, which excludes volatile food and energy components, rose 6% from a year ago.
- Jobless claims posted a third consecutive weekly drop, fully unwinding the 102,000 run up over the previous six weeks due to virus-related disruptions; the sharp decline highlights tight labor market conditions with companies unwilling to fire workers.
- Consumer sentiment in the U.S. declined further in early February to a fresh decade low amid intensifying inflation concerns, including impending monetary tightening by the Federal Reserve.

## This Week

Economic data scheduled to be released this week include wholesale prices, retail sales, housing starts, and existing home sales.

## Quote

"Our work is the presentation of our capabilities."

- Edward Gibbon

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

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