

## Equity Markets

While there was a wide divergence across the three major U.S. indexes (NASDAQ up 5%, S&P 500 up 2%, Dow up 1%), U.S. stock posted weekly gains. Support came from a few areas including lower oil prices and stronger labor market numbers

	<u>7/4 Open</u>	<u>7/8 Close</u>	<u>Change</u>
Dow Jones	31,097	31,338	Up 0.8%
S&P 500	3,825	3,899	Up 2.0%
NASDAQ	11,128	11,635	Up 4.6%
KBW Bank Index	102.6	103.0	Up 0.4%
VIX	26.7	24.6	Dn 7.9%

The price on a barrel of oil fell below \$100 for the first time since May and despite rising inflation the labor market showed sturdy growth, exceeding most economists forecast for June.

## Interest Rates/Bonds

After rising for three weeks in a row, prices of U.S. government bonds fell, sending yields higher amid continuing concerns about persistent inflation and tightening monetary policy. The yield of the 10-year U.S. Treasury bond rose to 3.10% on Friday, up from 2.89% the previous week.

	<u>7/4 Open</u>	<u>7/8 Close</u>	<u>Change</u>
3mo UST	1.61%	1.85%	Up 24 bp
2yr UST	2.83%	3.12%	Up 29 bp
5yr UST	2.88%	3.13%	Up 25 bp
10yr UST	2.89%	3.08%	Up 19 bp
2-10yr UST Spread	6 bp	-2 bp	Dn 8 bp
10yr Inflation Rate	2.38%	2.37%	Dn 1 bp

For the second time this year, the yield curve inverted, as the yield of the 2-year U.S. Treasury bond on Tuesday rose above the yield of the 10-year bond. Such an inversion is an indicator of concerns about short-term interest-rate increases as well as the possibility that a recession may loom ahead. The curve also briefly inverted in early April.

CPI will be the biggest economic release this week. Even as rising inflation is on investors' radars, long-term risk continues to show that the market is trading the risk with low long-term concern. Over the past two months the 10-year breakeven inflation rate has dropped 22% from 3.04% to 2.37%, approaching its average over the past 25 years.

## Washington

During their June meeting, FOMC officials agreed that they would have to raise interest rates faster and to higher levels to slow economic growth and tame inflation. Minutes of the meeting, released July 6, revealed that they agreed

that they need to hike rates to a so-called restrictive stance.

A group of U.S. senators wrote a letter on July 7 to seven of the country's largest banks "regarding widespread fraud" on Zelle, the companies' online peer-to-peer money transfer program. Sens. Bob Menendez, D-N.J.; Elizabeth Warren, D-Mass.; Jack Reed, D-R.I.; Sherrod Brown, D-Ohio; Chris Van Hollen, D-

Md.; Sheldon Whitehouse, D-R.I.; Bernie Sanders, I-Vt.; and Tammy Duckworth, D-Ill., co-signed the letter, which stated that nearly 18 million Americans were defrauded in 2020 through scams involving Zelle and other instant payment applications.

## Economic Results 7/5-7/8

### May Factory Orders

New orders for U.S.-manufactured goods increased more than expected in May, bucking a slew of recent data showing a softening in the economy and underscoring that demand for products

remains strong even as the Fed aggressively tightens financial conditions. May factory orders rose 1.6% (survey was 0.5%).

**June ISM non-manufacturing index** 55.3, which was better than the market expectation of 54 and slightly lower than the 55.9 in May. Although the index was still firmly above 50, line of prosperity and decline, it was the lowest since May 2020, due to challenges in employment, continued capacity constraints and reduced orders.

### June Nonfarm Payrolls

Nonfarm payrolls in June increased by 372k, topping the 265k estimate. The unemployment rate remained at 3.6%. Average hourly earnings rose 5.1% from a year ago, a touch faster than estimates. Labor force participation was 62.4%, missing surveys of 62.4%.

## Week Ahead

June CPI (Wed), June PPI (Thu), June Retail Sales (Fri), June Industrial Production, UofM Consumer Sentiment (Fri)

## Quote

"Could a greater miracle occur than for us to see through each other's eyes for an instant?" – Henry David Thoreau

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