

Equity Markets

Equity markets have staged an impressive rally since the mid-June lows, aided by weaker commodity prices, easing inflation expectations, and lower bond yields. With last week's outsized job gains suggesting that the Fed must stay aggressive in its fight against inflation, additional near-term momentum for this rally might be difficult to achieve, and markets could be entering a choppy phase in the months ahead.

	<u>8/1 Open</u>	<u>8/5 Close</u>	<u>Change</u>
Dow Jones	32,845	32,803	Dn 0.1%
S&P 500	4,130	4,145	Up 0.4%
NASDAQ	12,391	12,658	Up 2.2%
KBW Bank Index	108.5	108.6	Up 0.1%
VIX	21.3	21.2	Dn 0.5%

All eyes will turn to the CPI release this upcoming week and what impact that may have on the FOMC decision.

Interest Rates/Bonds

Yields were up across the curve, with the 2-year Treasury seeing the largest increase, especially later in the week because of a larger than expected increase in nonfarm payrolls. The higher-than-expected jobs reports elevated market expectations for a 75-basis point hike in September. Currently, the market is pricing in a 69% chance of a 75-basis point hike at the September FOMC meeting and there are some forecasters predicting that if the CPI number comes in strong this week that the Fed may be looking at a hike before the September meeting.

	<u>8/1 Open</u>	<u>8/5 Close</u>	<u>Change</u>
3mo UST	2.32%	2.47%	Up 15 bp
2yr UST	2.88%	3.23%	Up 35 bp
5yr UST	2.68%	2.96%	Up 28 bp
10yr UST	2.65%	2.83%	Up 18 bp
2-10yr UST Spread	-26 bp	-40 bp	Dn 14 bp
10yr Inflation Rate	2.55%	2.47%	Dn 8 bp

The curve continued its inversion trend with the spread between 2- and 10-year Treasuries crossing forty basis points. While inversion is not always a predictor of a future recession the longer the curve has historically remained negatively inverted has been a stronger predictor.

The market continues to forecast falling inflation. The markets current long run inflation gauge is currently predicant inflation to be 2.47% for the next ten years.

Washington

Senate Agriculture Committee Chairwoman Debbie Stabenow, D-Mich., and Sen. John Boozman, R-Ark., introduced a bill on Aug. 3 that could assign oversight of bitcoin and ether, two of the largest cryptocurrencies, to the Commodity Futures Trading Commission.

The bill would empower the federal agency that regulates milk futures and interest-rate swaps to regulate spot markets for digital commodities. The bill marks the latest in an intensifying battle among federal agencies and congressional committees that oversee them over who will regulate cryptocurrency.

In a bipartisan effort, Sens. Mark Warner, D-Va.; Jon Ossoff, D-Ga.; and Cynthia Lummis, R-Wyo., introduced a bill to protect credit union members from cybersecurity threats that could jeopardize their identities, privacy, and security.

The bill will empower National Credit Union Administration to assess cybersecurity risks posed by service providers and take action to protect credit union members.

Economic Results 8/1-8/5

July ISM Manufacturing: The ISM Manufacturing PMI edged lower to 52.8 in July of 2022 from 53 in June, beating market forecasts of 52. The reading pointed to a 26th straight month of rising factory activity but the weakest rate since June of 2020.

July Factory Orders: New orders for U.S.-manufactured goods increased solidly in June. Factory orders rose 2.0% in June after advancing 1.8% in May.

July ISM Services Index: The ISM Services PMI unexpectedly increased to 56.7 in July of 2022, the highest in 3-months, from 55.3 in June and beating market forecasts of 53.5.

July Nonfarm Payrolls: Nonfarm payrolls rose 528,000 for the month and the unemployment rate was 3.5%, easily topping estimates of 258,000 and 3.6% and putting more focus on the FOMC rate decision.

Week Ahead

July CPI (Wed), July PPI (Thu)

Quote

“Rule No. 1: Never lose money; rule No. 2: Don’t forget rule No. 1.”

– Warren Buffett

Contact

SSW Research Department

Chad McKeithen

P: (601) 605-1776

E: chad.mckeithen@ssw1776.com

www.ssw1776.com

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