

Equity Markets

The major U.S. stock indexes each posted returns exceeding 3% as investors welcomed indications of a modest easing in inflation. For the S&P 500 and the NASDAQ, it was the fourth positive result in a row, the longest string of weekly gains since November 2021. The CBOE Volatility Index on Friday closed about 43% below a recent peak set in mid-June.

	<u>8/15 Open</u>	<u>8/19 Close</u>	<u>Change</u>
Dow Jones	32,803	33,761	Up 3.0%
S&P 500	4,1450	4,280	Up 3.3%
NASDAQ	12,658	13,047	Up 3.1%
KBW Bank Index	108.6	114.9	Up 5.8%
VIX	21.2	19.5	Dn 8.0%

Friday's preliminary report from the University of Michigan's consumer sentiment index rose for the second month in a row, after falling in June to the lowest point since 1952. Consumers have been more positive as some signs of growing inflation have stabilized and oil and energy prices have dropped.

Interest Rates/Bonds

Treasury yields posted their second straight week of advances, after data showed a rise in U.S. consumer sentiment for August and as investors continued to digest the latest inflation readings. The yield on the 2-year Treasury was up 2 basis points on the week. It is up 36 basis points over the past two weeks. The 10-year Treasury yield rose 1 basis point this week.

	<u>8/15 Open</u>	<u>8/19 Close</u>	<u>Change</u>
3mo UST	2.47%	2.52%	Up 5 bp
2yr UST	3.23%	3.25%	Up 2 bp
5yr UST	2.96%	2.96%	Flat
10yr UST	2.83%	2.84%	Up 1 bp
2-10yr UST Spread	-40 bp	-41 bp	Dn 1 bp
10yr Inflation Rate	2.47%	2.47%	Flat

While inflation signals eased during the week, the bond market is not as positive as equities. Spreads between 2- and 10-year Treasury yields — seen as a usually reliable recession warning signal if sustained — remained deeply inverted at minus 41 basis points as the shorter-dated yield rose and the 10-year rate dropped on Friday.

Washington

The CFPB's efforts to stop a roughly 9% hike in credit card late fees pegged to inflation could hit a snag as banks and credit unions are pushing back hard. With inflation jumping to a multiyear high, the agency has questioned whether the late fees credit card companies charge should be tied to inflation.

Bankers, trade groups and others have opposed the consumer watchdog's efforts and are trying to keep the CFPB from making any changes to late fees, suggesting that the fees function as a deterrent to consumers piling on debt.

The Federal Reserve and the Office of the Comptroller of the Currency are considering whether large regional banks should hold more long-term debt as financial cushions to protect them in a crisis, a move that could hinder some pending bank mergers.

How such requirements should apply to the larger regional banks now seeking to close big deals is among the issues under consideration, the sources said.

Another key consideration would depend on how the newly appointed Vice Chair for Supervision Michael Barr wants to proceed, even as regulators operate on their own timeline. One bank awaiting approval is U.S. Bancorp, which has already missed its initial completion date for its proposed acquisition of MUFG Union Bank NA in June.

Economic Results 8/8-8/12

July CPI: Although U.S. inflation remains near its highest level since the early 1980s, the latest monthly CPI report brought some relief. Inflation rose at an annual 8.5% rate in July, marking a slowdown from the previous month's 9.1% figure. Falling gasoline prices were responsible for the decline.

July PPI: Stripping out food, energy and trade services, PPI increased 0.2% in July, which was less than the expected 0.4% gain. Core PPI rose 5.8% from a year ago. The numbers came a day after the consumer price index showed that inflation was flat in July though up 8.5% from a year ago.

Week Ahead

July Housing Starts (Tue)
July Industrial Production (Tue)
July Retail Sales (Wed)
July Existing Home Sales (Thu)

Quote

"There is only one boss. The customer. And he can fire everybody in the company from the chairman on down."
– Sam Walton

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