

## Equity Markets

The major U.S. stock indexes were little changed through most of the week but ended with a decline on Friday, snapping a string of four consecutive weekly gains for the S&P 500 and NASDAQ. With the next U.S. Federal Reserve meeting just over a month away, investors worried about the pace of further interest-rate increases.

	<u>8/15 Open</u>	<u>8/19 Close</u>	<u>Change</u>
Dow Jones	33,761	33,707	Dn 0.2%
S&P 500	4,280	4,229	Dn 1.2%
NASDAQ	13,047	12,705	Dn 2.6%
KBW Bank Index	114.9	112.2	Dn 2.3%
VIX	19.5	20.6	Up 5.6%

The future of rates along with slowing retail spending and slowing home sales pushed volatility higher for the week.

## Interest Rates/Bonds

Federal Reserve James Bullard's comments during the week, "We should continue to move expeditiously to a level of the policy rate that will put significant downward pressure on inflation ... I do not really see why you want to drag out interest rate increases into next year," gave rate markets assurance that the Fed will remain aggressive through year-end.

	<u>8/15 Open</u>	<u>8/19 Close</u>	<u>Change</u>
3mo UST	2.52%	2.59%	Up 7 bp
2yr UST	3.24%	3.25%	Up 1 bp
5yr UST	2.96%	3.09%	Up 13 bp
10yr UST	2.84%	2.98%	Up 1 bp
2-10yr UST Spread	-41 bp	-27 bp	Dn 14 bp
10yr Inflation Rate	2.47%	2.56%	Up 9 bp

Expectations for further aggressive moves to raise U.S. interest rates fueled a decline in government bond prices, sending yields to the highest level in a month. The yield of the 10-year U.S. Treasury bond rose to about 2.98% on Friday, up from 2.85% at the close of the previous week. The volatile 2-year was relatively flat for the week. This allowed the 2-10 year Treasury spread to finally reverse its inversion trend that began in early June.

Minutes released from last month's U.S. Federal Reserve meeting showed that policymakers agreed they needed to keep raising interest rates, although they expressed concerns about lifting borrowing costs too fast and unduly weakening the economy. Stocks closed lower on Wednesday after investors assessed the minutes release.

## Washington

Federal Reserve officials sounded cautious over the pace of rate hikes going forward even though they feel there is a need to raise interest rates to ease the multiyear high inflation. The minutes of the recent Federal Open Market Committee meeting released Aug. 17 highlighted that policymakers are faced with two opposing risks:

First, there may be a need to hike interest rates further at a pace more than currently anticipated if price pressures get entrenched in the broader economy. Second, officials acknowledged for the first time that interest rate hikes could lead to higher borrowing costs than needed, which could cause unwarranted weakness in the economy.

Toomey, the ranking GOP member of the Senate Banking Committee, attacked the Federal Deposit Insurance Corp. on the regulator's stance toward banks dealing with cryptocurrency, questioning whether it intends to "improperly" deter banks from offering cryptocurrency services.

The letter to the acting chairman of the FDIC, Martin Gruenberg, said Toomey's office has received complaints about the regulator's staff in its Washington headquarters urging regional offices to send letters to banks that have been involved in offering crypto-related services and ask them to limit their relationship with crypto-related companies.

## Economic Results 8/15-8/19

### July Housing Starts:

Housing starts in the United States tumbled 9.6 percent month-over-month to an annualized rate of 1.446 million units in July of 2022, the lowest since February of 2021 and well below market expectations of 1.54 million.

**July Industrial Production:** U.S. industrial production rose 0.6% in July, the Federal Reserve reported Tuesday. The gain was above expectations of a 0.3% increase.

**July Retail Sales:** Retail activity was flat in July as falling fuel prices held back gas station sales and consumers turned more heavily to online shopping.

**July Existing Home Sales:** Sales of existing homes fell for the sixth consecutive month as a recent rise in mortgage rates continued to weigh on the U.S. housing market. Sales fell 5.9% versus the previous month.

## Economic Week Ahead

July New Home Sales (Tue)  
July Pending Home Sales  
(Wed)  
2<sup>nd</sup> Qtr GDP (Thu)  
July PCE & Personal  
Income/Spending (Fri)  
UofM Sentiment (Fri)

## Quote

"The starting point of all achievement is desire." — Napoleon Hill

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