

Equity Markets

Stock bulls had a tough week as the market slumped to its worst week since June. There was no data to blame for the retreat. The pullback came from Jerome Powell's blunt warning Friday that the economy could be a victim in the battle to tame inflation. Volatility spiked and the S&P 500 plunged more than 3% after the Federal Reserve chair said additional jumbo-sized hikes may be warranted and rates will remain elevated until inflation eases.

	<u>8/22 Open</u>	<u>8/26 Close</u>	<u>Change</u>
Dow Jones	33,707	32,283	Dn 4.2%
S&P 500	4,229	4,058	Dn 4.0%
NASDAQ	12,705	12,142	Dn 4.4%
KBW Bank Index	112.2	107.7	Dn 4.0%
VIX	20.6	25.6	Up 24.3%

Bringing down prices "is likely to require a sustained period of below-trend growth" and an increase in unemployment, Powell said at the Kansas City Fed's annual policy forum in Jackson Hole, Wyoming. The comments were so strong that some believe they may have been purposely delivered to hobble recent market swagger.

Interest Rates/Bonds

Treasury yields rose for the fourth straight week, hitting the highest levels since June. The 2 & 10-year Treasury yield are both up 50-60 basis points during August.

Following Powell's comments in Jackson Hole, WY the futures market placed a bigger wager on a 75-basis point hike at the September 20-21 FOMC meeting. The market is pricing in a 61% chance of a 75-basis point hike and a 39% chance of a 50-basis point increase.

	<u>8/22 Open</u>	<u>8/26 Close</u>	<u>Change</u>
3mo UST	2.59%	2.82%	Up 23 bp
2yr UST	3.25%	3.40%	Up 15 bp
5yr UST	3.09%	3.21%	Up 12 bp
10yr UST	2.98%	3.04%	Up 6 bp
2-10yr UST Spread	-27 bp	-36 bp	Dn 9 bp
10yr Inflation Rate	2.56%	2.58%	Up 2 bp

While short-term rate futures spiked, longer term rate futures saw little upward pressure. The 10-year Treasury yield is currently 3.04% and the forward market does not price it above 3.12% over the next two years, signaling that long-term inflation will drop.

Washington

In the face of opposition from community groups and increased regulatory scrutiny of large bank deals, Toronto-Dominion Bank still expects its pending acquisition of Memphis, Tenn.-based First Horizon Corp. to close on time. Executives were pleased with the support they received for the transaction from communities the bank serves during a recent meeting held by the Federal Reserve and the OCC.

However, community groups asked the regulators to hold off on approving the merger until TD and First Horizon invest more in local communities.

Federal Reserve Chair Jerome Powell said the central bank must continue to tighten monetary policy by raising interest rates until it is confident inflation is under control. The steps being taken by the Fed to slow inflation "will also bring some pain to households and businesses, but a failure to restore price stability would mean far greater pain," Powell said.

In an Aug. 24 announcement, Biden said his administration will cancel \$10,000 in federal student loan debt for individuals making less than \$125,000 a year or couples that make under \$250,000 a year and \$20,000 for Pell grant recipients.

Economic Results 8/22-8/26

July New Home Sales: New home sales fell 12.6% in July and were down 29.6% from one year ago as rising prices take a toll.

July Pending Home Sales: Pending home sales slipped 1% in July but not as much as the forecasted -2.6% expectation.

2nd Qtr GDP: The economy contracted at an annual 0.6% pace in the second quarter, as high inflation and rising interest rates sapped growth.

July PCE: Headline PCE came in at -0.1%, well off the +1.0% increase in June. Core PCE increased +0.1%, lower than the +0.2% expected and the +0.6% reported in June. Personal income came in much lower than expected: +0.2% versus +0.6%, which was identical to June. Consumer spending came in well off expectations: +0.1% versus the +0.5% estimate, and 100 basis points lower than June.

UofM Consumer Sentiment:

Sentiment improved more than previously estimated. August sentiment was revised to 58.2 from 55.2 and much better than July at 51.5.

Economic Week Ahead

Aug Consumer Confidence (Tue)
Aug ADP Employment (Wed)
Aug ISM manufacturing (Thu)
Aug Nonfarm/Unemployment (Fri)

Quote

"In the midst of chaos, there is also opportunity."

— Sun-Tzu, *A Arte da Guerra*

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