

Equity Markets

With most major central banks increasing their interest rates to combat inflation, major indexes fell sharply for the fifth time in the last six weeks. The FOMC led the charge, raising its overnight rate to a range of 3.00% to 3.25%, matching a level last reached in 2008. The market expected the move, but post meeting commentary was slightly more hawkish than anticipated.

	<u>9/19 Open</u>	<u>9/23 Close</u>	<u>Change</u>
Dow Jones	30,822	29,590	Dn 4.0%
S&P 500	3,873	3,693	Dn 4.6%
NASDAQ	11,448	10,868	Dn 5.1%
KBW Bank Index	106.1	98.9	Dn 6.8%
VIX	26.3	29.9	Up 13.7%

This in combination with some larger companies (i.e., FedEx) lowering earnings guidance spooked investors.

Back-to-back weeks of 4% to 5% equity losses and markets are now approaching year to date lows. Since mid-August, all three major indexes are down double digits with the NASDAQ down 17%.

Interest Rates/Bonds

The yield of the 10-year U.S. Treasury bond climbed for the eighth week in a row, reaching 3.70% on Friday. The yield is up twenty-five basis points from the previous week and up 106 basis points since the end of July. The inversion of the yield curve became more pronounced, as the 2-year Treasury yield rose to about 4.20%—the highest since 2007. The 2-to-10-year Treasury spread ended the week at -51 basis points.

	<u>9/19 Open</u>	<u>9/23 Close</u>	<u>Change</u>
3mo UST	3.09%	3.19%	Up 10 bp
2yr UST	3.85%	4.20%	Up 35 bp
5yr UST	3.63%	4.02%	Up 39 bp
10yr UST	3.45%	3.69%	Up 24 bp
2-10yr UST Spread	-41 bp	-51 bp	Dn 10 bp
10yr Inflation Rate	2.37%	2.38%	Up 1 bp

For the third meeting in a row, the U.S. Federal Reserve sought to keep inflation in check by approving a 0.75 percentage point increase in its benchmark interest rate. The move pushed the rate to a range of 3.00% to 3.25%. Fed officials projected they would lift the rate by at least another 1.25% over the last two meetings of this year. The futures market is forecasting 75 basis points in November and 50 basis points in December.

Washington

The Federal Open Market Committee hiked interest rates by 75 basis points for the third time this year, bringing its target rate to a range of 3% to 3.25%.

U.S. bank stocks fell sharply following the Federal Reserve's move and recovered losses before trending negative again by market close.

The KBW Nasdaq Bank Index fell by approximately 0.9% minutes after the Fed's announcement, then recovered into positive territory before ending in negative territory around market close. The index closed down 2.12% on Sept. 21, while the S&P 500 finished the day down 1.71%.

"We are moving our policy stance purposefully to a level that will be sufficiently restrictive to return inflation to 2%," said Fed Chairman Jerome Powell at a post-policy press conference. "In addition, we are continuing the process of significantly reducing the size of our balance sheet. I wish there were a painless way to do that," Powell said, "There isn't."

Elsewhere, a group of banking regulators, appointed by President Biden, is mulling over new rules that would require large regional banks to add to financial cushions that could support these institutions in times of crisis, *The Wall Street Journal* reported Sept. 19, citing people familiar with the matter. The new rules may include steps such as prompting the regional banks to raise longer tenure debt, which may help in absorbing losses in case of insolvency. The rules would extend a trimmed version of requirements that now apply only to the largest U.S. banks.

Economic Results 9/19 - 9/23

Aug Housing Starts: Housing starts in the US unexpectedly jumped 12.2% month-over-month to an annualized rate of 1.575 million units, beating expectations.

Aug Existing Home Sales: 4.80 million existing homes were sold in August (SAAR), down 0.4% from July and down 19.9% from August 2021.

Economic Week Ahead

Sep. Consumer Confidence (Tue)

Aug New Home Sales (Tues)

Aug Pending Home Sales (Wed)

GDP (Thu)

Aug PCE &

Income/Spending (Fri)
UofM Sentiment (Fri)

Quote

"The only way around is through."

– Robert Frost

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.

Smith Shellnut Wilson, LLC ♦ Investment Counsel and Management

661 Sunnybrook Rd., Suite 130 ♦ Ridgeland, MS 39157 ♦ Telephone 601-605-1776 ♦ Fax 601-605-1710