

Equity Markets

Equities started the week and quarter on a sharply positive note with strong rallies Monday and Tuesday, only to turn negative the final three days. Nonetheless, the three major U.S. stock indexes posted gains of around 1% to 2% for the week. It was only the second positive week during the past eight.

	<u>10/3 Open</u>	<u>10/7 Close</u>	<u>Change</u>
Dow Jones	28,725	29,297	Up 2.0%
S&P 500	3,586	3,640	Up 1.6%
NASDAQ	10,576	10,652	Up 0.7%
KBW Bank Index	95.8	97.6	Up 1.9%
VIX	31.6	31.4	Dn 0.6%

The market pivoted following Friday's solid monthly jobs report and concerns that it would push the U.S. Federal Reserve to approve a 0.75 percentage point interest-rate increase in November, for the fourth meeting in a row.

Although the September's jobs gain total of 263,000 was down from the prior month's 315,000 figure, it was modestly above economists' expectations. Another drag on equities is the rebound in oil prices. After recent downward trends, OPEC approved a cut of two million barrels a day on Wednesday sending the price of a barrel up from \$80 - \$93 over the past week.

Interest Rates/Bonds

Yields rose again in another volatile week in the bond market. The 2-year U.S. Treasury yield increased ten basis points while the 10-year yield moved up eight basis points and close to its highest yield level in 14 years.

	<u>10/3 Open</u>	<u>10/7 Close</u>	<u>Change</u>
3mo UST	3.21%	3.33%	Up 12 bp
2yr UST	4.20%	4.30%	Up 10 bp
5yr UST	4.03%	4.14%	Up 11 bp
10yr UST	3.80%	3.88%	Up 8 bp
2-10yr UST Spread	-40 bp	-42 bp	Dn 2 bp
10yr Inflation Rate	2.14%	2.27%	Up 13 bp

Bond portfolio managers have had a tough year. The 10year Treasury bond yield is up from 1.62% to 3.88% for a total return of about -17% in 2022. Rising Treasury rates have been the headline focus. But the additional problem for portfolios has been mind-blowing volatility and what it has done to spreads. Implied bond volatility is up 93% YTD and that has sent bond spreads, across ever sector, screaming wider. Bond losses and gains are generated by duration, nominal rate movement and spread movement. Rates and spreads have been on a 2022 upward climb.

Washington

U.S. President Joe Biden's move for a universal pardon of federal simple marijuana possession last Thursday could help clear the path for legislation, allowing banks to serve cannabis companies.

If the federal government gives marijuana a less stringent definition under the Controlled Substances Act, this could give the

the medical marijuana industry access to the banking system and U.S. equity market exchange listings.

FASB has allowed companies to continue to ignore certain rules pertaining to loan contracts modification and accounting for hedges of interest-rate risks as they gradually shift away from using the Libor. With Libor set to expire June 30, 2023, most U.S. companies have shifted toward using the SOFR.

Initially, companies were provided relief by the FASB in March 2020. FASB voted Oct. 5 to extend the relief, which is optional, until Dec. 31, 2024, past Libor's end. It covers the period through which banks can continue referencing the current dollar Libor.

Economic Results 10/3 - 10/7

Sep. ISM Manufacturing: The ISM Manufacturing Index registered 50.9% in September; 1.9 points lower than August's reading of 52.8%. It was the lightest read since May 2020.

Aug. Factory Orders: New orders for U.S.-manufactured goods were unchanged in August amid a drop in demand for transportation equipment, but solid gains elsewhere pointed to underlying strength in manufacturing.

Sep. ADP Employment: Businesses added 208,000 jobs for the month, better than the 200,000 Dow Jones estimate and ahead of the upwardly revised 185,000 in August, according to ADP.

Sep. Unemployment: U.S. employers hired more workers (Nonfarm added 263,000) than expected in September. The unemployment rate dropped to 3.5% from 3.7%. 57,000 people left the labor force last month which dropped the participation rate from 62.4% to 62.3%.

Economic Week Ahead

Sep. PPI (Wed), Sep. CPI (Thu),
Sep. Retail sales (Fri), UofM
Sentiment (Fri)

Quote

"The question isn't who is going to let me, it's who is going to stop me."

—Ayn Rand

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