

## Equity Markets

The S&P 500 and the NASDAQ fell for the week, failing to extend the previous week's positive performance and posting the seventh negative result out of the past nine weeks. The Dow was an exception, as it finished in positive territory. Despite interest-rate increases this year, Thursday's CPI release showed that key drivers of inflation are not settling down.

	<u>10/10 Open</u>	<u>10/14 Close</u>	<u>Change</u>
Dow Jones	29,297	29,635	Up 1.2%
S&P 500	3,640	3,583	Dn 1.5%
NASDAQ	10,652	10,321	Dn 3.1%
KBW Bank Index	97.6	98.2	Up 0.6%
VIX	31.4	32.0	Up 0.6%
Oil (WTI)	92.5	86.4	Dn 7.0%

September's annual rate fell to 8.2% from 8.3% the previous month. However, excluding volatile food and gas prices, core inflation rose to a higher-than-expected 6.6%—the biggest jump in four decades. Third quarter earnings have kicked off. Entering earnings season, analysts were forecasting that third-quarter earnings for companies in the S&P 500 rose by an average of 2.4%, which would be the lowest earnings growth rate in two years.

## Interest Rates/Bonds

For the first time since 2008, the yield of the U.S. 10-year Treasury bond eclipsed 4.00%. The yield climbed above that level briefly on Thursday in the wake of a monthly inflation report before rebounding to close at 4.01% on Friday. The 2-year Treasury yield also rose twenty basis points for the week, reaching 4.50%, the highest since 2007.

	<u>10/10 Open</u>	<u>10/14 Close</u>	<u>Change</u>
3mo UST	3.33%	3.64%	Up 31 bp
2yr UST	4.30%	4.50%	Up 20 bp
5yr UST	4.14%	4.23%	Up 9 bp
10yr UST	3.88%	4.01%	Up 13 bp
2-10yr UST Spread	-42 bp	-49 bp	Dn 7 bp
10yr Inflation Rate	2.27%	2.39%	Up 12 bp

Nominal yields have pushed higher, so has volatility and therefore spreads. The MOVE index, which tracks implied volatility, has now increased to a level that has only been eclipsed by the 2008 financial crisis. As a result, every bond sector has seen widening spreads this year.

## Washington

FNMA & FHLMC should be "banned from providing low-interest loans to private equity" companies, Rep. Ro Khanna, D-Calif., said Oct. 12 at the D.C. Fintech Week conference in Washington, D.C. Khanna alleged that private equity companies are using such funds to buy properties valued at less than \$500,000 and "holding them and letting them sit vacant."

He added that this was "allowed after 2008" because property values were depressed, but it now creates "artificial demand."

The Financial Accounting Standards Board said Oct. 12 that companies should use fair-value accounting for measuring bitcoin and other crypto assets. Currently, there are no specific accounting or disclosure rules for crypto assets. As a result, businesses classify them as indefinite-lived intangible assets akin to intellectual property.

Companies and accountants have wanted FASB to adopt fair-value accounting, which would allow them to recognize gains and losses immediately and treat digital assets as financial assets.

## Economic Results 10/10 - 10/14

**Sep. PPI:** A measure of prices that U.S. businesses get for the goods and services they produce, increased 0.4% for the month, compared with the Dow Jones estimate of 0.2%. On a YoY basis, PPI rose 8.5%, a slight deceleration from the 8.7% in August.

**Sep. CPI:** CPI rose 0.4% in September and was up 8.2% from a year ago. Excluding food and energy, the core index accelerated 0.6% and 6.6%, respectively. The yearly gain for core was the highest since August 1982.

**Sep. Retail Sales:** Retail and food services sales in total were little changed in September against the estimate for a 0.3% gain. Excluding autos, sales rose 0.1%, vs. the estimate for spending to be unchanged.

**U of M Sentiment:** The preliminary result of the University of Michigan's consumer sentiment index for October rose to 59.8 from 58.6, bringing the reading up to 9.8 points above an all-time low reached in June.

## Economic Week Ahead

Sep. Industrial Production (Tue), Sep. Housing Starts (Wed), Sep. Existing Home Sales (Thu)

## Quote

"Rule No. 1: Never lose money;  
rule No. 2: Don't forget rule No. 1."  
— Warren Buffett

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