

Equity Markets

U.S. stock indexes rebounded in a big way from the previous week's declines, driven largely by a one-day rally on Thursday that was the largest in two and a half years. Although U.S. inflation remains near its highest level since the early 1980s, the latest monthly Consumer Price Index report provided the relief and fuel for the equity rally.

	<u>11/7 Open</u>	<u>11/11 Close</u>	<u>Change</u>
Dow Jones	32,403	33,748	Up 4.2%
S&P 500	3,771	3,993	Up 5.9%
NASDAQ	10,475	11,323	Up 8.1%
KBW Bank Index	103.9	109.9	Up 4.9%
VIX	24.6	22.5	Dn 8.0%
Oil (WTI)	92.6	88.9	Dn 3.5%

Inflation rose at an annual 7.7% rate in October—down from 8.2% in September—and 0.4% on a month-to-month basis. Both figures were below the levels that most economists had expected. The NASDAQ posted the top result with a weekly gain of more than 8%; the S&P 500 added about 6% and the Dow rose around 4%. The CBOE Volatility Index (VIX) fell more than 8% for the latest week; on Friday it was down 33% from a recent high on October 12.

Interest Rates/Bonds

The new inflation numbers fueled speculation that the U.S. Federal Reserve could begin to scale back the size of interest-rate increases starting in December, sending bond prices higher and yields lower. The yield of the 10-year U.S. Treasury bond tumbled from 4.16% at the end of the previous week to 3.82% on Thursday. (On Friday, U.S. bond markets were closed for the Veterans Day holiday.)

	<u>11/7 Open</u>	<u>11/11 Close</u>	<u>Change</u>
3mo UST	4.10%	4.16%	Up 6 bp
2yr UST	4.66%	4.32%	Dn 34 bp
5yr UST	4.33%	3.94%	Dn 39 bp
10yr UST	4.15%	3.82%	Dn 33 bp
2-10yr UST Spread	-51 bp	-50 bp	Up 1 bp
10yr Inflation Rate	2.48%	2.41%	Dn 7 bp

The 5-year U.S. Treasury rallied the most, dropping thirty-nine basis points week over week. The curve inversion remained unchanged at negative fifty basis points. The market did pull back predictions for FOMC rate hikes. The market now forecasts a pair of 4.88% by May 2023. That is down from 5.23% last week.

Washington

Republicans did not bag as many wins as anticipated. The House is expected to flip to GOP control — albeit with a far slimmer margin than forecasted — and the Senate will be controlled by Democrats, meaningfully exceeding expectations.

During the upcoming "lame duck" session at the end of the year, the ICBA expects Congress to try to pass an omnibus appropriations bill, and the trade group is advocating for the SAFE Banking Act to be included. As passed by the House, the Secure and Fair Enforcement Act, or SAFE Banking Act, says federal banking regulators cannot penalize depository institutions for providing banking services to legitimate cannabis-related businesses and their ancillaries, such as electricians and plumbers.

The SEC and U.S. Department of Justice are investigating FTX Trading Ltd. following the cryptocurrency platform's sudden implosion during the week. The Justice Department prosecutes criminal cases, while the SEC enforces investor protection. The SEC's investigation is focused on the company's U.S. subsidiary, FTX.US, which lists dozens of crypto tokens. Agency officials believe some of these assets, as well as FTX's lending product, might constitute securities that should have been registered with the SEC before being sold to investors.

Economic Results 11/7 - 11/11

Oct. Small Business Optimism: Confidence among U.S. small businesses ticked downward in October as surging inflation impacted sentiment.

Oct. Small Business Optimism Cont.: The National Federation of Independent Business (NFIB) said its Small Business Optimism Index dropped 0.8 points to 91.3 in October, marking the lowest level since July.

Oct. CPI: The Consumer Price Index rose 7.7% for the year ending in October, a much slower pace of increase than the 8% economists had expected and the lowest annual inflation reading since January.

Oct. CPI Continued: The stock market skyrocketed on the news, with Dow futures surging by more than eight hundred points on hopes the Fed would dial back its aggressive rate hikes.

Economic Week Ahead

Oct. PPI (Tue)
Oct. Retail Sales (Wed)
Oct. Industrial Prod (Wed)
Oct. Housing Starts (Thu)
Oct. Existing Home Sales (Thu)

Quote

"Victory is sweetest when you've known defeat."

– Malcolm S. Forbes

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