

## Equity Markets

While the U.S. Federal Reserve's preferred gauge for tracking inflation showed a further cooling of price hikes on Friday, it was not enough to turn the week. The DJIA managed to post a small weekly gain, but the S&P 500 and the NASDAQ fell for the third week in a row.

	<u>12/19 Open</u>	<u>12/23 Close</u>	<u>Change</u>
Dow Jones	32,921	33,204	+0.9%
S&P 500	3,852	3,845	-0.2%
NASDAQ	10,705	10,498	-1.9%
KBW Bank Index	97.7	99.3	+1.6%
VIX	22.6	20.9	-7.5%
Oil (WTI)	75.5	79.6	+5.4%

With one week left in the year, the S&P 500 is down 18% year to date on a total return basis and on track for its worst year since 2008. Oil rose to nearly \$80 per barrel on Friday, up around 7% for the week, in part due to expectations that Russia could cut its global output.

## Interest Rates/Bonds

Prices of government bonds fell sharply, sending their yields higher, after Japan's central bank on Monday widened its target range for yields of Japanese 10-year bonds. In the United States, the yield of the 10-year U.S. Treasury bond climbed to 3.75% on Friday, up from 3.48% a week earlier.

	<u>12/19 Open</u>	<u>12/23 Close</u>	<u>Change</u>
3mo UST	4.21%	4.28%	+7bp
2yr UST	4.19%	4.31%	+12bp
5yr UST	3.64%	3.86%	+22bp
10yr UST	3.51%	3.75%	+24bp
2-10yr UST Spread	-68 bp	-57 bp	+11bp
10yr Inflation Rate	2.13%	2.23%	-15bp

Implied interest rate volatility has continued to trend lower since reaching a June high point for the year. On June 10<sup>th</sup> the MOVE Index, which measures implied interest rate volatility, reached one of the highest levels it has been at since the beginning of the 2008 Great Recession. Since June it has trended lower and has just fallen below its twelve-month average. Implied volatility has a direct correlation to non-Treasury bond spreads (credit, options, etc.). As volatility has declined bond investors have started to see lower unrealized losses in their bond portfolios. It has been particularly noticeable in shorter corporate and municipal bond spreads. The two-year municipal to two-year Treasury ratio has declined from 90% six months ago to 60% currently.

## Washington

U.S. Senate Banking Committee Ranking Member Pat Toomey, R-Pa., introduced two separate pieces of legislation Dec. 21, one aimed at increasing the accountability of the Federal Reserve and the other at establishing the first federal regulatory framework for payment stablecoins. If the legislation is passed, all the Fed's regional bank presidents will be presidentially appointed, and Senate confirmed.

The bill will also reduce the number of Fed regional banks to five from twelve currently and ensure that all the bank presidents have permanent seats on the Federal Open Market Committee. The legislation on payment stablecoins aims to guide Congress toward a path for "sensible regulation of cryptocurrencies." The bill intends to encourage competition by allowing regulated entities to issue payment stablecoins. All payment stablecoins will be required to be fully backed by high-quality liquid assets in a bid to enhance financial stability and all payment stablecoin issuers will be subjected to standardized disclosure requirements and attestations by registered accounting firms.

The Federal Deposit Insurance Corp. and the Federal Reserve Board on Dec. 19 updated the asset-size thresholds for 2023 that are used to define "small bank" and "intermediate small bank" under their Community Reinvestment Act regulations. The thresholds are annually adjusted based on the average change in the Consumer Price Index for Urban Wage Earners and Clerical Workers, or CPI-W. With the CPI-W at 8.60% for the period ended November 2022, a small bank means an institution that, as of Dec. 31 of either of the prior two calendar years, had assets of less than \$1.503 billion. The new guidelines define an intermediate small bank with assets between \$376 million and \$1.503 billion, as of Dec. 31 of the prior two calendar years.

## Economic Results 12/19 - 12/23

**3<sup>rd</sup> Qtr. GDP:** Third qtr. GDP was revised up to 3.2% as consumer spending and investment remained strong.

**Consumer Confidence:** Confidence rose to an eight-month high in December as inflation retreated and the labor market remained strong.

**Nov. PCE/Income/Spending:** Core PCE rose 4.7% (4.6% projected) annually versus 5.0% in Oct. Personal income rose 0.4% last month and spending rose 0.1%.

## Economic Week Ahead

Oct. FHFA Home Price index (Tue)

Nov. Pending Home sales

## Quote

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

– Sun-Tzu

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