

Equity Markets

After posting gains in the three previous years, equity markets turned sharply negative in 2022, producing some of their worst annual results since 2008. For the year, the S&P index finished down 18.1% on a total return basis; the Dow's setback was comparatively modest at 6.9% while the NASDAQ lagged with a 32.5% decline.

	<u>12/26 Open</u>	<u>12/30 Close</u>	<u>Change</u>
Dow Jones	33,204	33,147	-0.2%
S&P 500	3,845	3,840	-0.1%
NASDAQ	10,498	10,467	-0.3%
KBW Bank Index	99.3	100.9	+1.6%
VIX	20.9	21.7	+3.8%
Oil (WTI)	79.6	80.3	+0.7%

The past year produced a huge performance gap between the value and growth equity markets, with value recapturing the lead following a strong run for growth in recent years. The U.S. large-cap value index fell nearly 8% on a total return basis while its growth-oriented counterpart dropped 29%. Energy was the top-performing sector with a 65.7% total return, followed by utilities (1.6%) and consumer staples (-0.6%). Communication services generated the weakest result with a 39.9% decline, followed by consumer discretionary (-37.0%) and information technology (-28.2%).

Interest Rates/Bonds

The year was an especially difficult one for bond investors, as a U.S. investment-grade fixed-income benchmark, the Bloomberg U.S. Aggregate Bond Index, finished down 13%. This was the worst total return year for the Bloomberg U.S. aggregate bond index since it was first tracked in 1976.

	<u>12/26 Open</u>	<u>12/30 Close</u>	<u>Change</u>
3mo UST	4.28%	4.34%	+6bp
2yr UST	4.31%	4.42%	+11bp
5yr UST	3.86%	4.00%	+14bp
10yr UST	3.75%	3.88%	+13bp
2-10yr UST Spread	-57 bp	-54 bp	+3bp
10yr Inflation Rate	2.23%	2.30%	+7bp

As for government bonds, the yield of the 10-year U.S. Treasury bond finished 2022 around 3.88%, up from 1.51% at the end of 2021.

Volatility, driven by inflation concerns, and resulting FOMC activity was the primary driver of higher rates for the year. As the year progressed, fears turned toward an overly aggressive Fed and what type of impact it would have on the economy.

Washington

The NAFCU, urged the SBA to rescind or pause two proposed rules that would increase opportunities for financial technology companies to grant 7(a) loans. In the Dec. 27 letter, NAFCU asked regulators to consider the impact of the proposed rule on small business lending companies. The advocacy group supported portions of the proposed rules that provide flexibility and facilitate the origination of small-dollar commercial lending.

However, the group suggested that the SBA should avoid the inclusion of political appointees in the lending process. The SBA's proposed rules are also facing opposition from the ABA, which said fintech participants are not subject to federal prudential supervision. Consequently, they are not required to comply with Bank Secrecy Act and Anti-Money Laundering requirements, concentration caps, safety and soundness parameters, stress test parameters and other regulations.

The Office of the Comptroller of the Currency on Dec. 29 revised the asset-size threshold amounts used to define a "small bank or savings association" and an "intermediate small bank or savings association"

under the Community Reinvestment Act, or CRA. Starting Jan. 1, 2023, a bank that, as of Dec. 31 of either of the prior two calendar years, had assets of less than \$1.503 billion is a small bank or savings association under the CRA. The threshold, which becomes effective Jan. 1, 2023, applies to any national bank, federal savings association, or state savings association. The bulletin adjusts the threshold amounts based on the annual percentage change in a measure of the consumer price index.

Economic Results 12/27 - 12/30

Oct FHFA Home Price Index: U.S. house prices have seen two consecutive months of near-zero appreciation. Higher mortgage rates continued to put downward pressure on demand, weakening house price growth. 0.0% vs. -0.6% consensus.

Nov. Pending Home sales: Contracts to buy U.S. previously owned homes fell far more (-4.0%) than expected (-1.0%) in November due to the Fed's interest hikes.

Economic Week Ahead

Nov. Constr. Spending (Tue)
Dec ISM Manufacturing (Wed)
Nov JOLTS (Wed)
Dec ADP Employment (Thu)
Dec Nonfarm Payroll (Fri)
Nov Pending Home sales
Dec ISM Services Index (Fri)

Quote

"The best way to predict the future is to create it."

- Peter Drucker

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