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Financial Week Newsletter

As summarized by Smith Shellnut Wilson

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Equity Markets

The S&P 500 and the NASDAQ started 2023 on a positive note and snapped three-week losing streaks, with both indexes rising more than 1%. The indexes were negative for the week until Friday, when stocks rallied following a monthly jobs report that showed a slowdown in wage growth, potentially easing inflationary pressures.

	1/3 Open	1/6 Close	Change
Dow Jones	33,147	33,630	+1.5%
S&P 500	3,840	3,895	+1.4%
NASDAQ	10,467	10,569	+1.0%
KBW Bank Index	100.9	105.3	+4.4%
VIX	21.7	21.1	-2.8%
Oil (WTI)	80.3	73.8	-8.1%

As major banks prepare to open quarterly earnings season this week, most analysts are scaling back expectations. Over the past three months, analysts reduced their fourth-quarter earnings-per-share estimates for companies in the S&P 500 by an average of 6.5%, according to FactSet. That figure exceeds the 3.8% average reduction seen prior to earnings seasons over the past 20 years.

Interest Rates/Bonds

At their December meeting, U.S. Federal Reserve officials emphasized their commitment to keep interest rates high to limit inflation, according to Wednesday's release of meeting minutes.

While Friday's labor market report showed another monthly job gain, it also indicated a slowdown in wage growth, which eased investors' inflation worries and lifted prices of government bonds.

	1/3 Open	1/6 Close	Change
3mo UST	4.34%	4.58%	+24bp
2yr UST	4.42%	4.25%	-17bp
5yr UST	4.00%	3.70%	-30bp
10yr UST	3.88%	3.56%	-32bp
2–10yr UST Spread	-54 bp	-70 bp	-16bp
10yr Inflation Rate	2.30%	2.21%	-9bp

Yields fell, with the 10-year U.S. Treasury bond closing around 3.56% on Friday, down sharply from 3.88% at the end of the previous week. On Friday alone, the 2-year Treasury was down almost thirty basis points.

The curve inverted for the week as the economy shows subtle signs of slowing with the backdrop of the Federal Reserve committed to inflation control.

Washington

The Office of the Comptroller of the Currency, or the OCC, is significantly reducing the rates of the general assessments applicable to banking institutions for 2023, the agency said Jan. 5 in its annual report. Effective Jan. 1, the changes to the General Assessment Fee Schedule include reductions by 40% for all banks on their first $200 million in total balance-sheet assets.

The fee will drop by 20% for all banks on balance-sheet assets above $200 million and up to $20 billion. Assessments are due March 31 and Sept. 30.

Martin Gruenberg was sworn in as the Federal Deposit Insurance Corp. Chairman on Jan. 5. President Joe Biden appointed Gruenberg for a five-year term as the chair of the FDIC and six-year term as a director on the board. The board will now have a full complement of members for the first time since early June 2015.

Economic Results 1/3 - 1/6

Dec. Nonfarm Payroll: The U.S. economy added 223,000 jobs in December, according to statistics released by the Labor Department on Jan. 6. The unemployment rate ticked down to 3.5% from a revised 3.6% in November.

Average hourly earnings increased 0.3% in December, slightly cooler than the 0.4% increase in November. Earnings were up 4.6% year over year in December versus the 4.8% rise recorded in November.

Dec. ISM manufacturing: U.S. manufacturing activity slipped to 48.4 in December from 49 in the prior month, according to the Institute for Supply Management on Wednesday. This is the lowest level since May 2020.

Dec. ADP Employment: Private payrolls in December rose by 235,000 for the month, well ahead of the 153,000 Dow Jones estimate, according to ADP**.**

Economic Week Ahead

Dec. CPI (Thu)
UofM Sentiment (Fri)

Quote

"If one does not know to which port one is sailing, no wind is favorable."

– Lucius Annaeus Seneca

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