

Equity Markets

The final month of the holiday shopping season didn't provide a spending boost for the broader U.S. economy, as retail spending in December fell at a worse-than-expected pace of 1.1%. That result slightly lagged November's 1.0% decline and was the worst monthly result of 2022 on a seasonally adjusted basis.

	<u>1/17 Open</u>	<u>1/20 Close</u>	<u>Change</u>
Dow Jones	34,303	33,375	-2.7%
S&P 500	3,999	3,972	-0.6%
NASDAQ	11,079	11,140	+0.6%
KBW Bank Index	107.4	107.7	+0.3%
VIX	18.4	19.9	+8.3%
Oil (WTI)	79.9	81.6	+2.1%

The S&P 500 and the Dow sustained their first negative week of 2023 amid mixed earnings results, big layoff announcements from major technology companies, and concern about the prospect of a recession. The Dow's weekly drop of 2.7% was far steeper than the 0.6% decline for the S&P 500; in contrast, the NASDAQ finished up 0.6%.

Interest Rates/Bonds

Nominal rates were relatively unchanged week over week with the 10-year Treasury rallying slightly to 3.48%.

The mounting debt ceiling showdown will be an event for credit markets to watch closely. In the period around the 2011 debt ceiling standoff, the absolute level of investment grade corporate bond yields remained almost entirely unchanged. However, the plunge in Treasury yields translated into a widening of spreads on investment grade corporate bonds.

	<u>1/17 Open</u>	<u>1/20 Close</u>	<u>Change</u>
3mo UST	4.58%	4.57%	-1bp
2yr UST	4.25%	4.20%	-5bp
5yr UST	3.70%	3.61%	-9bp
10yr UST	3.56%	3.48%	-8bp
2-10yr UST Spread	-70 bp	-72 bp	-2bp
10yr Inflation Rate	2.21%	2.19%	-2bp

By one measure, the inversion of the yield curve recorded its biggest gap on record. As of Friday, the yield of the 10-year U.S. Treasury bond was around 3.48% compared with 4.66% for the 3-month bill—a negative spread of 118 basis points. Prior to this year, a negative spread had never been more than one hundred points, according to data going back to 1982.

Washington

The top official at the OCC sent "a new warning" when he cautioned that big, complex banks could face divestiture if they fail to fix longstanding problems, according to analysts and attorney. Acting Comptroller Michael Hsu applied pressure on "too-big-to-manage" banks in a recent

speech. In what industry experts dubbed a significant announcement, Hsu made clear that a four-step escalation framework could end in banks being broken up into smaller pieces.

Partisan brinkmanship in Washington D.C. over the nation's debt ceiling aggravated the sense of anxiety for investors. Democratic and Republican leaders remained at odds over fiscal issues, and the U.S.

Department of the Treasury on Thursday began taking special accounting measures to meet debt obligations and prevent a potential default—at least for now.

Economic Results 1/17 - 1/20

Dec. Retail Sales: U.S. retail sales fell by the most in a year. Retail sales fell 1.1% in December.

Dec. PPI: U.S. producer prices fell more than expected in December as the costs of energy products and food declined, offering more evidence that inflation was receding. The producer price index for final demand decreased 0.5% last month.

Economic Week Ahead

S&P/Case-Shiller Home Price Index (Mon)
4th-quarter GDP, advance estimate (Thu)
Durable goods orders (Thu)
New home sales (Thu)
PCE Price Index (Fri)
UofM Consumer Sentiment (Fri)

Quote

"The only impossible journey is the one you never begin."

– Tony Robbins

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