

Equity Markets

The major U.S. stock indexes rose early in the week but failed to maintain that momentum. Mid-week readings on inflation fueled concerns that the Federal Reserve may extend its rate-hiking cycle longer than expected. The CPI release showed a smaller-than-expected decline to an annual inflation rate of 6.4%;

	<u>2/13 Open</u>	<u>2/17 Close</u>	<u>Change</u>
Dow Jones	33,869	33,827	-0.1%
S&P 500	4,090	4,079	-0.2%
NASDAQ	11,718	11,787	+0.6%
KBW Bank Index	112.4	111.9	-0.4%
VIX	20.5	20.0	-2.0%
Oil (WTI)	79.7	76.3	-4.3%

(continued) the PPI release on Thursday indicated that prices charged by industrial suppliers rose more than had been expected. This caused investor concern and for the week, the S&P 500 slipped 0.2% on a total return basis, the Dow was essentially flat, and the NASDAQ added 0.6%.

Interest Rates/Bonds

The latest data on inflation caused a bond market selloff and pushed the yields of 2- and 10-year U.S. Treasury bonds to their highest levels in almost four months. The 2-year's yield rose to 4.61% on Friday while the 10-year's yield was 3.83%—maintaining a yield curve inversion of minus 78 basis points. This is the longest negative inversion since 2000.

	<u>2/13 Open</u>	<u>2/17 Close</u>	<u>Change</u>
3mo UST	4.73%	4.79%	+6bp
2yr UST	4.52%	4.61%	+9bp
5yr UST	3.92%	4.03%	+11bp
10yr UST	3.73%	3.82%	+9bp
2-10yr UST Spread	-79 bp	-79 bp	0bp
10yr Inflation Rate	2.34%	2.37%	+3bp

Interest rate volatility has seen a rebound over the past few weeks as concerns about inflation and higher rates has weighed on the bond market and future rate expectations. The MOVE index measures overall implied volatility of interest rates. Since February 1 the index is up by 15% after seeing a steady decline during the fourth quarter of 2022. The market is forecasting that the Fed Funds rate will rise to between 5.25% and 5.50% and will finish 2023 above 5.00%. The increase in volatility has also caused spreads on corporate and municipal bonds to widen over the past few weeks.

Washington

The OCC hinted at the aspects of bank merger review policy that are under scrutiny, as regulators embark on their sweeping review of those guidelines. In a Feb. 10 speech on behalf of acting Comptroller Michael Hsu, Senior Deputy Comptroller and Chief Counsel Benjamin McDonough said the agency

is focused on the competition, financial stability and community needs during its rethink of current bank merger review policy.

President Joe Biden announced Feb. 14 that Lael Brainard will be the director of the National Economic Council. Following the announcement, Fed Board Vice Chair Brainard submitted her resignation, effective on or around Feb. 20.

The Securities and Exchange Commission proposed a rule on Feb. 16 that is expected to discourage asset managers to invest their customers' money in cryptocurrencies. The agency voted 4-1 in favor of the proposal as the SEC looks to tighten its grip over the sector.

Economic Results 2/13 – 2/17

Jan. CPI: Data released by the U.S. Labor Department on Feb. 14 showed that the consumer price index increased 0.5% in January and 6.4% from the year-ago period. Core CPI, which excludes volatile items such as food and energy, also rose 0.4% in January and 5.6% from a year ago.

Jan. Retail Sales: Retail sales rose 3% in January, easily topping the 1.9% Dow Jones estimate, the Commerce Department reported Wednesday.

Jan. PPI: The January PPI report shows producer prices rose, pointing to persistent inflation. The labor department gauge advanced 6% from a year earlier.

Economic Week Ahead

Existing home sales (Tue)

4th Qrt GDP (Thurs)

Personal Spending/Income
PCE, New home sales,
UofM consumer sentiment
(Fri)

Quote

"Always deliver more than expected."

– Larry Page

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