

Equity Markets

Markets declined last week as incoming inflation data has prompted a renewed lift in interest rates and adjusted market expectations around further Fed rate hikes this year. Stocks are still holding on to solid gains for 2023, but after a steady rally to start the year, markets have seen a renewed bout of fluctuations in recent weeks.

	<u>2/21 Open</u>	<u>2/24 Close</u>	<u>Change</u>
Dow Jones	33,827	32,817	-3.0%
S&P 500	4,079	3,970	-2.7%
NASDAQ	11,787	11,395	-3.3%
KBW Bank Index	111.9	109.1	-2.5%
VIX	20.0	21.7	+8.5%
Oil (WTI)	76.3	76.3	0.0%

Each of the major U.S. stock indexes fell around 3% for the week, sustaining their biggest weekly declines of 2023. After starting the year on a mostly positive note, the S&P 500 recorded its third negative week in a row, and the Dow slipped into negative territory year to date.

Interest Rates/Bonds

Fresh worries about inflation and the course of further interest-rate hikes weighed on prices of government bonds, sending the yield of the 10-year U.S. Treasury bond to its highest level since October. The yield rose on Friday to 3.94%, up from 3.83% at the end of the previous week. The 2-year note's yield also jumped, climbing to 4.78%.

	<u>2/21 Open</u>	<u>2/24 Close</u>	<u>Change</u>
3mo UST	4.79%	4.77%	-2bp
2yr UST	4.61%	4.78%	+17bp
5yr UST	4.03%	4.22%	+19bp
10yr UST	3.82%	3.94%	+16bp
2-10yr UST Spread	-79 bp	-83 bp	-4bp
10yr Inflation Rate	2.37%	2.38%	+1bp

Although the U.S. Federal Reserve slowed the pace of interest-rate hikes at its most recent meeting on February 1, minutes from the session that were released on Wednesday showed that Fed officials believe "ongoing" rate hikes will continue to be necessary. They said they need to see further evidence of a broad easing in price pressures before they'll be confident that inflation is "on a sustained downward path."

Washington

Fair lending groups and Senate Democrats praised the White House's Feb. 22 announcement to cut mortgage insurance premiums by nearly 40% for new mortgages insured by the FHA. GNMA also applauded the plan, saying that "a reduced [annual mortgage insurance premium] increases affordability and provides payment savings amidst rising costs of housing and high market interest rates."

A few names have come to light as possible candidates for the No. 2 position at the Federal Reserve after Lael Brainard resigned and became director of the White House National Economic Council. Speculation on Janice Eberly or Karen Dynan to become Fed vice chair are mounting. Dynan, an economist at Harvard University, believes that controlling inflation will not hold unless the job market moderates. Eberly, an economist at Northwestern University, has said higher interest rates can be "counterproductive because they're reducing supply."

The Treasury Department and the Internal Revenue Service released guidance on the Corporate Alternative Minimum Tax on Feb. 17. The CAMT, is a key provision of the Inflation Reduction Act that ensures large corporations pay a minimum 15% tax on the adjusted financial statement income they report to shareholders.

Economic Results 2/21 - 2/24

4th Qtr. GDP: The economy grew at a slightly slower pace than originally estimated, according to a revised government release on Thursday. GDP expanded at an annualized rate of 2.7%, down from the initial 2.9% estimate released a month ago. The downward revision was mostly due to slower consumer spending than initial data had shown.

Jan. PCE Price Index: The U.S. Federal Reserve's preferred gauge for tracking inflation rose 0.6% from December to January—the largest month-to-month increase since last June. The bigger-than-expected rise in the PCE index weighed on stocks Friday, as it puts more pressure on the Fed to continue lifting interest rates to try to control inflation.

Economic Week Ahead

Jan Durable goods,
Jan Pending home sales (Mon)

Case-Shiller home price index,
Conference board consumer
confidence (Tues)

Feb ISM manufacturing (Wed)

Quote

"Be yourself; everyone else is
already taken."

– Oscar Wilde

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