SMITH SHELLNUT WILSON

AN AFFILIATE OF b1 BANK

Financial Week Newsletter

As summarized by Smith Shellnut Wilson

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Equity Markets

The major U.S. stock indexes all sustained steep weekly losses of 4.0 to 5.0%. The S&P 500 fell to its lowest level since early January. A monthly gain of 311,000 U.S. jobs, reported on Friday, did not match the +500,000 added in January, but the latest result did exceed most economists' expectations. The government also reported that wages rose at a moderate 0.2% in February relative to January.

	3/6 Open	3/10 Close	Change
Dow Jones	33,391	31,909	-4.3%
S&P 500	4,045	3,861	-4.5%
NASDAQ	11,689	11,138	-4.7%
KBW Bank Index	109.4	92.2	-15.7%
VIX	18.5	24.8	+34.1%
Oil (WTI)	79.3	76.5	-3.5%

This is positive for inflation and afterwards bond futures forecast a 25-basis point hike at the next FOMC meeting. A regulatory shutdown of Silicon Valley Bank, a California-based commercial bank that focuses on lending to technology companies, triggered a surge in volatility that hit bank stocks and extended to the broader market as well, especially small caps which dropped by more than 8%. The CBOE Volatility Index, which measures investors' expectations of short-term U.S. stock market volatility, surged 29% Thursday and Friday.

Interest Rates/Bonds

Shifts in the outlook for interest-rate increases continued to drive volatility in the bond markets. The 2-year U.S. Treasury note had a particularly rough ride, as its yield rose as high as 5.07% by Wednesday—the highest since 2007—after finishing the previous week at 4.86%.

	3/6 Open	3/10 Close	Change
3mo UST	4.78%	4.80%	+2bp
2yr UST	4.86%	4.59%	-27bp
5yr UST	4.24%	3.92%	-32bp
10yr UST	3.97%	3.70%	-27bp
2–10yr UST Spread	-90 bp	-89 bp	+1bp
10yr Inflation Rate	2.51%	2.29%	-22bp

On Friday, the 2-year yield dropped to 4.59% as bond investors chased safety following the closure of SVB, the 16th largest bank in the country. Both the 2- and 10-year Treasuries finished the week lower by almost 30 basis points.

Washington

Federal Reserve Chair Jerome Powell told congressional committees that bank capital requirements will be tailored depending on institutions' sizes, and the Federal Reserve Board will eventually solicit comments on a public proposal.

House Republicans are pitting themselves against the Consumer Financial Protection Bureau for the foreseeable future. On March 7, House Financial Services Committee member Rep. Blaine Luetkemeyer, R-Mo., introduced three bills. One would establish a bipartisan, five-person commission, while another would remove the CFPB director from the Federal Deposit Insurance Corp. board of directors and put term limits in place for FDIC board of directors members. The third bill would establish an independent inspector general solely for the CFPB. Currently, the CFPB shares an inspector general with the Federal Reserve. The moves are likely to be the first to slash the agency's ability to crack down on banks, car dealers, mortgage originators and other institutions it believes are engaging in improper behavior.

The recent turmoil at crypto-friendly banks has amplified the calls for specific guidance on how the industry can safely work with digital assets. On March 9th Federal Reserve Vice Chair for Supervision Michael Barr said the Fed is "enhancing" its supervision of crypto activities and plans to publish more guidance as it works with other agencies.

Economic Results 3/6 – 3/10

Feb Nonfarm Payrolls: Nonfarm payrolls rose by 311,000 in February, above the 225,000 Dow Jones estimate. The unemployment rate increased to 3.6%, above survey expectations.

(Continued) Average hourly earnings climbed 4.6% from a year ago, less than expected, in a positive sign for inflation. The labor force participation rate rose to 62.5%, its highest level since March 2020.

Economic Week Ahead

Feb CPI (Tues)

Feb PPI
Feb Retail Sales (Wed)

Feb Housing starts (Thurs)

UofM Consumer Sentiment (Fri)

Quote

"The first one gets the oyster, the second gets the shell."

– Andrew Carnegie

Contact

SSW Research Department
Chad McKeithen
P: (601) 605-1776
E: chad.mckeithen@ssw1776.com
www.ssw1776com

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