

## Equity Markets

While the S&P 500 and the NASDAQ regained some of the ground lost following the previous week's sell-off, markets were choppy and returns varied widely across asset classes. Pressures on the banking sector were front and center, with daily headlines taking markets on a roller-coaster ride.

	<u>3/13 Open</u>	<u>3/17 Close</u>	<u>Change</u>
Dow Jones	31,909	31,862	-0.1%
S&P 500	3,861	3,917	+1.5%
NASDAQ	11,138	11,631	+4.4%
KBW Bank Index	92.2	78.8	-14.5%
VIX	24.8	25.5	+2.8%
Oil (WTI)	76.5	66.7	-12.8%

Concerns emerged after the failures of Silicon Valley Bank and Signature Bank, which then spread to First Republic Bank and Credit Suisse. The one-two punch involving U.S. regional banks and a large international bank briefly erased the S&P 500's gains for the year. But quick action from policymakers, along with a sharp decline in bond yields, helped equities rebound. The going concern will be whether the FOMC's restrictive policy, over the past year, will uncover other financial sector vulnerabilities.

## Interest Rates/Bonds

For the second week in a row prices of U.S. government debt surged, sending yields sharply lower, with the steepest yield drop coming from shorter durations. After ending the previous week at 4.59%, the yield of the 2-year U.S. Treasury note fell to around 3.82% on Friday. As recently as March 8, it had been as high as 5.07%.

	<u>3/13 Open</u>	<u>3/17 Close</u>	<u>Change</u>
3mo UST	4.80%	4.34%	-46bp
2yr UST	4.59%	3.82%	-77bp
5yr UST	3.92%	3.50%	-42bp
10yr UST	3.70%	3.39%	-31bp
2-10yr UST Spread	-89 bp	-43 bp	+46bp
10yr Inflation Rate	2.29%	2.10%	-19bp

Current risks and volatility involving segments of the banking system have injected fresh uncertainty into the next meeting of the U.S. Federal Reserve, which is scheduled to announce its next move on interest rates on Wednesday. Earlier expectations for another rate hike of either a quarter percentage point or a half point have been thrown into doubt. Currently, futures forecast one twenty-five basis point hike before May 2023.

## Washington

The NCUA said the credit union system remains well capitalized and on a solid footing at a time when the banking industry faces a liquidity concerns. The chairperson noted that there is a wide range of liquidity sources available to the credit unions.

The FDIC stated in a financial institution letter that all contracts entered into with Silicon Valley Bank and Signature Bank and their counterparties were

(continued) transferred to the FDIC-established bridge banks, Silicon Valley Bridge Bank NA and Signature Bridge Bank NA. The two bridge banks will assume the deposits and obligations of the two failing banks.

The Fed is contemplating an extension of restriction applied to the largest banks as it rethinks several of its own rules pertaining to midsize banks following the collapse of two lenders. Measures including tougher capital and liquidity requirements are under review along with measures to beef up annual stress tests.

If the rules are given the green light, then it could focus on banking institutions with assets between \$100 billion to \$250 billion.

## Economic Results 3/13 – 3/17

**Feb CPI:** Inflation remained elevated despite easing in February, still posing a challenge for the Federal Reserve. The CPI climbed 6% in February on an annual basis, 0.4% lower compared to the previous month. Core inflation, which excludes volatile food and energy costs, increased by a seasonally adjusted 0.5% in February.

**Feb PPI:** Wholesale prices unexpectedly fell 0.1% for February, below the estimate for a 0.3% increase and compared with a 0.3% gain in January. On a 12-month basis, the index increased 4.6%, well below the 5.7% level from the previous month.

**Feb Retail Sales:** Retail sales fell 0.4% in February. The total was in line with expectations and dragged down by a 1.8% slide in auto sales.

## Economic Week Ahead

Feb Existing Home Sales  
(Tues)

FOMC Rate Decision (Wed)

Feb New Home Sales (Thurs)

## Quote

“The only place success comes before work is in the dictionary.”

– Vince Lombardi

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

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