

Equity Markets

A key FOMC meeting and continuing concerns regarding bank stability dominated the week as the major U.S. stock indexes recorded gains of 1% to 2%. Despite the positive equity rise, markets were unsettled, shifting quickly between gains and losses.

	<u>3/20 Open</u>	<u>3/24 Close</u>	<u>Change</u>
Dow Jones	31,862	32,238	+1.2%
S&P 500	3,917	3,971	+1.4%
NASDAQ	11,631	11,824	+1.7%
KBW Bank Index	78.8	78.4	-0.5%
VIX	25.5	21.7	-14.9%
Oil (WTI)	66.7	69.3	+3.9%

The Fed now has a balancing act to navigate: supporting the banking system with liquidity on one hand and battling inflation with interest-rate increases on the other. As volatility grows investors have moved to defensive stocks with sectors like consumer staples, health care, and technology outperforming over the last few weeks. Gold eclipsed \$2,000 per ounce—the highest price since August 2020. In another hit to households, U.S. home prices posted the first year-over-year decline in 11 years in February.

Interest Rates/Bonds

The U.S. Federal Reserve on Wednesday lifted interest rates by a quarter percentage point, extending its run of rate hiking amid continuing instability in segments of the banking sector. The overnight rate is now at 5.00% and the futures market is not pricing in any more hikes for the year.

	<u>3/20 Open</u>	<u>3/24 Close</u>	<u>Change</u>
3mo UST	4.34%	4.51%	+17bp
2yr UST	3.82%	3.79%	-3bp
5yr UST	3.50%	3.42%	-8bp
10yr UST	3.39%	3.38%	-1bp
2-10yr UST Spread	-43 bp	-41 bp	+2bp
10yr Inflation Rate	2.10%	2.21%	+11bp

Yields of U.S. government bonds fell for the third week in a row, extending a recent run of fixed-income volatility amid shifting interest-rate expectations. The yield of the 10-year Treasury bond slipped to 3.38% on Friday, down from a recent peak of 4.07% on March 2. The 2-year note's yield was around 3.77%, down from 5.07% on March 8.

Washington

Borrowing by banks from the new Bank Term Funding Program jumped week-over-week by more than \$40 billion, while discount window lending declined by over \$42 billion during that same period. According to Federal Reserve data through March 22, Bank Term Funding Program (BTFP) borrowing jumped to \$53.67 billion, up from \$11.94 billion the week prior.

(Continued) Meanwhile, discount window borrowing declined to \$110.25 billion from a record high of \$152.85 billion last week.

U.S. bank stocks fell after the Fed's Federal Open Market Committee raised the federal funds rate by 25 basis points to a range of 4.75% to 5%. The KBW Nasdaq Bank Index closed down 4.70% following the FOMC announcement, while the S&P 500 closed down 1.65%.

The extension of the bidding window for potential buyers of Silicon Valley Bridge Bank NA's

(Continued) assets would help the Federal Deposit Insurance Corp. secure a larger return on the sale, sources close to the auction process said. The FDIC is looking to sell the most assets at the highest possible price, while bidders are demanding the highest possible amount of government guarantee to cover potential shortfalls of loans.

Economic Results 3/20 – 3/24

Feb Existing Home Sales: Sales snap a 12-month long decline as buyers return. 4.58 million existing homes were sold in February, up 14.5% from January and down 22.6% from February 2022. Low inventory remains a major constraint.

FOMC Rate Decision: The Fed hike its overnight rate from 4.75% to 5.00% on Wednesday. Fed officials also revised their GDP growth forecast downward.

Feb New Home Sales: Sales of new single-family houses were at 640,000, up from a revised 633,000 in January. Sales were down from last year's estimated rate of 790,000. It was the strongest sales pace since August.

Economic Week Ahead

Jan FHFA House Price Index,
Consumer Confidence (Tues)

Pending Home Sales (Wed)

4th Qtr. GDP (Thurs)

Feb PCE (Fri)

Quote

“ If you don't drive your business,
you will be driven out of business.”

– B. C. Forbes

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