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Financial Week Newsletter

As summarized by Smith Shellnut Wilson

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Equity Markets

The Dow, S&P 500, and NASDAQ added more than 3%, climbing for the third consecutive week and recovering more of the ground lost in a difficult February. The first quarter ended with a big divergence between the major U.S. stock indexes. The NASDAQ posted a 17.0% quarterly return, owing in part to its large weighting in technology

	3/27 Open	3/31 Close	Change
Dow Jones	32,238	33,274	+3.2%
S&P 500	3,971	4,109	+3.5%
NASDAQ	11,824	12,222	+3.4%
KBW Bank Index	78.4	82.0	-4.6%
VIX	21.7	18.7	-13.8%
Oil (WTI)	69.3	79.6	+14.9%

(Continued) stocks that recorded strong quarterly performance and due to lower interest rates. The S&P 500 rose 7.5% for the quarter while the Dow was up 0.9%. The Cboe Volatility Index fell sharply for the second week in a row as easing concerns about banks' financial stability took some of the edge off the broader market. The Cboe Volatility Index fell by 29% below a recent a recent high on March 13.

Interest Rates/Bonds

Yields of U.S. Treasury bonds rose for the week, snapping a string of three consecutive weekly declines. The yield of the 10-year U.S. Treasury bond rose eleven basis points for the week but it remains down sharply from a recent peak of 4.07% on March 2. The 2-year Treasury was up twenty-seven basis points for the week, finishing at 4.06%.

	3/27 Open	3/31 Close	Change
3mo UST	4.51%	4.62%	+11bp
2yr UST	3.79%	4.06%	+27bp
5yr UST	3.42%	3.63%	+21bp
10yr UST	3.38%	3.49%	+11bp
2–10yr UST Spread	-41 bp	-57 bp	-16bp
10yr Inflation Rate	2.21%	2.32%	+11bp

As expectations for a recession have increased over the past month, Treasury futures have dropped heavily. The 2-year Treasury is predicted to fall to 3.37%, from 4.06% current, in a year. The 10-year Treasury is priced to drop a bit less to 3.42%, from 3.49%, over the next year.

Washington

The CFPB on March 30 issued controversial final rules that require complex data collection on small-business loan applications, going into effect for the largest lenders first.

President Joe Biden urged regulators to reverse the previous administration's "weakening" of bank safeguards and supervision, following the recent failures of Silicon Valley Bank and Signature Bank. Biden urged the banking regulators to reinstate rules that were rolled back during President Donald Trump's administration, including liquidity requirements and enhanced liquidity stress (Continued) testing. The original rules under the Dodd-Frank Act pertaining to liquidity required banks between $100 billion and $250 billion in assets to hold sufficient high-quality liquid assets to cover expected net outflows during a stress period, according to the Fact Sheet released by the White House. However, the Trump administration eliminated these rules for banks below $250 billion in assets.

The Federal Reserve faced criticism from US senators over its failure to prevent Silicon Valley Bank's collapse even though the regulator had identified the risks beforehand. "Fundamentally, the bank failed because its management failed to appropriately address clear interest-rate risk and clear liquidity risk," Barr said, adding that supervisors of the bank initially (Continued) highlighted those concerns more than a year before it failed.

Chairman Martin Gruenberg said that the FDIC will impose special assessments on banks to repay any losses to the Deposit Insurance Fund following the failures of Silicon Valley Bank and Signature Bank. The FDIC estimates the cost to the Deposit Insurance Fund to be $20 billion for resolving Silicon Valley Bank and $2.5 billion for resolving Signature Bank.

Economic Results 3/27 – 3/31

Feb PCE: The report released Friday showed that the U.S. Federal Reserve's preferred gauge for tracking inflation rose 0.3% from January to February, down sharply from the 0.6% rate in the previous month. On an annual basis, the PCE Price Index rose 5.0%, down from the prior month's 5.3% figure.

March UofM Consumer Sentiment: A gauge of U.S. consumer sentiment fell sharply, recording the first decline in four months. The University of Michigan said on Friday that its survey indicated a growing number of consumers expect a recession is ahead, although their near-term views of inflation moderated.

Economic Week Ahead

Mar ISM Manufacturing (Mon)

Feb Factory Orders (Tues)

Mar ADP Employment
Mar ISM Services Index (Wed)

Mar Nonfarm Payrolls (Fri)

Quote

"Creativity is a habit, and the best creativity is a result of good work habits."

– Twyla Tharp

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