

Equity Markets

Stocks traded in a narrow range for the third week in a row. The S&P 500, NASDAQ, and Dow each finished slightly lower for the week. After week two of earnings season, the percentage of S&P 500 companies that have beaten analysts' quarterly net income projections is just over 75%, according to FactSet. That is lower than the five-year average.

	<u>4/17 Open</u>	<u>4/21 Close</u>	<u>Change</u>
Dow Jones	33,887	33,809	-0.2%
S&P 500	4,138	4,134	-0.1%
NASDAQ	12,124	12,073	-0.4%
KBW Bank Index	82.9	82.9	+0.0%
VIX	17.1	16.8	-1.8%
Oil (WTI)	82.5	77.9	-5.6%

(Continued) Across sectors, consumer discretionary and industrials stocks will end up with the strongest earnings growth overall. The cost of U.S. crude oil dropped by more than 5% for the week to under \$78 a barrel. The drop marked a reversal from the last few weeks' gains, and it brought oil prices back around the prices from a month ago, when Saudi Arabia and a few other countries announced they would cut production which instantly sent prices higher. The first estimate of first quarter GDP will be announced on Thursday. Forecasts are for a 2.0% annual growth rate vs fourth quarter growth of 2.6%.

Interest Rates/Bonds

Yields of government bonds finished the week almost unchanged from the previous week. The 2-year yield moved the most, up seven basis points. The 10-year was up five basis points.

Partisan brinkmanship in Washington, D.C., over the nation's debt ceiling fueled anxiety for investors.

	<u>4/17 Open</u>	<u>4/21 Close</u>	<u>Change</u>
3mo UST	4.99%	5.02%	+3bp
2yr UST	4.11%	4.18%	+7bp
5yr UST	3.61%	3.66%	+5bp
10yr UST	3.52%	3.57%	+5bp
2-10yr UST Spread	-59 bp	-61 bp	-2bp
10yr Inflation Rate	2.30%	2.29%	-1bp

(Continued) House Republicans introduced a bill that would cut federal spending in exchange for lifting the ceiling for a year. Meanwhile, the government continued to take special accounting measures to meet debt obligations and prevent a default.

Washington

The Fed is considering requiring midsized banks to include unrealized gains and losses on available-for-sale securities in regulatory capital. The proposal could be made as soon as this summer. SVB, sold about \$21 billion from their portfolio for a post-tax loss of approximately \$1.8 billion on March 8, two days before it failed. The bank's larger unrealized losses on held-to-maturity securities were not recognized in its financial

(Continued) statements or in regulatory capital. The changes that the Fed is considering will not apply to the treatment of losses for those securities but could be addressed later. Banks are planning to fight rule changes and said a change to capital rules for unrealized losses on banks' available-for-sale securities could result in higher government borrowing costs and mortgage rates.

Borrowing from the Fed's Bank Term Funding Program inched higher in the week ended April 19. It now stands at \$74 billion.

Republicans are likely to thwart any efforts by Democrats in Congress to tackle controversial issues tied to recent bank failures, industry observers told S&P Global Market Intelligence. Democrats plan to propose raising the Federal Deposit Insurance Corp.'s deposit insurance limit and to return capital, liquidity, and stress-testing requirements to a higher standard for regional banks. Those efforts will be met with stiff opposition by Republicans in the lower chamber, leaving it to the regulatory agencies to make major overhauls where they can.

Economic Results 4/17 - 4/21

Mar Housing Starts: US home building pulled back in March, falling 0.8% in March from February as a decline in multifamily home construction failed to balance out an increase in single-family homes.

Mar Existing Home Sales: For the first time in 11 years, prices of existing U.S. homes have fallen for two months in a row. The National Association of Realtors said that the median existing home sale price in March fell 0.9% from a year earlier to \$375,000.

Economic Week Ahead

Feb. FHFA Home Price Index, Consumer Confidence Index, Mar. New home sales (Tues)

Durable goods orders (Wed)

First-quarter GDP, advance estimate, Mar. Pending home sales (Thurs)

Mar. PCE Price Index, U of M Consumer Sentiment (Fri)

Quote

"If you don't have a competitive advantage, don't compete."

– Jack Welch

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