

Equity Markets

The S&P 500 and the Dow finished the week slightly lower while the NASDAQ squeezed out a tiny gain, copying the pattern from the previous week, with the Dow disappointing again and the NASDAQ beating both of its peers. While inflation continued to slow, the latest Consumer Price Index reading still causes concern for prices, as inflation only slowed to a 4.9% annual rate in April versus 5.0% in March.

	<u>5/8 Open</u>	<u>5/12 Close</u>	<u>Change</u>
Dow Jones	33,674	33,301	-1.0%
S&P 500	4,136	4,124	-0.2%
NASDAQ	12,235	12,285	0.4%
KBW Bank Index	75.3	72.6	-3.6%
VIX	17.2	17.0	-1.2%
Oil (WTI)	73.3	69.6	-5.0%

(Continued) Excluding energy and food, prices climbed 5.5% versus 5.6% the previous month. The most encouraging news on the report was that the measure that the Fed has been highlighting, core services inflation excluding shelter, improved meaningfully, rising by the slowest pace in nine months. Oil fell for the fourth week in a row. Crude fell below \$70 after hitting a recent peak, above \$83, in early April.

Interest Rates/Bonds

Like the small movements witnessed in the U.S. stock market recently, volatility in the U.S. government bond market has also eased in comparison to the big moves seen in early March. Since then, the 10-year U.S. Treasury has moved in a narrow range between 3.60% and 3.29%, with Friday's yield at around 3.46%. In early March it had reached 4.08%.

	<u>5/8 Open</u>	<u>5/12 Close</u>	<u>Change</u>
3mo UST	5.20%	5.11%	-9bp
2yr UST	3.91%	3.98%	7bp
5yr UST	3.42%	3.44%	2bp
10yr UST	3.44%	3.46%	2bp
2-10yr UST Spread	-47 bp	-52 bp	-5bp
10yr Inflation Rate	2.22%	2.19%	-3bp

The slowing in inflation in both consumer and producer prices takes some pressure off the Fed to hike, reinforcing expectations for a pause in June. The futures market currently predicts that the Fed Funds rate will fall from an effective rate of 5.08% to 4.38% by year end.

Washington

The Securities and Exchange Commission is investigating the conduct of First Republic Bank executives prior to the bank going under the receivership of the Federal Deposit Insurance Corp. and its subsequent sale to JPMorgan Chase & Co., Bloomberg News reported May 5, citing two people familiar with the matter.

In its May Financial Stability Report, the Federal Reserve warned that the supply of credit to the economy may further contract led by concerns about the economic outlook, credit quality and funding liquidity.

The Bank Term Funding Program borrowings totaled \$83.10 billion on May 10, up nearly \$8 billion from \$75.79 billion in the prior week.

Federal Reserve Board Governor Michelle Bowman called for an independent investigation into the Silicon Valley Bank failure and the Fed's role as the bank's primary federal regulator. Bowman also said that the recent bank failures do not justify higher capital requirements.

Economic Results 5/8 – 5/12

April CPI: Data released by the US Labor Department on May 10 showed that on an annual basis, the consumer-price index rose 4.9% in April, down from a 5% increase in March. Prices rose 0.4% month over month compared to a 0.1% gain in March. The rise during April was driven by housing costs, gasoline, and used-car prices.

April PPI: The producer price index, a measure of prices for final demand goods and services, increased 0.2%, against the Dow Jones estimate for 0.3%. Headline PPI rose just 2.3%, down from 2.7% in March and the lowest reading since January 2021.

Economic Week Ahead

April Retail Sales
April Industrial Production
(Tues)

April Housing Starts (Wed)

April Existing Home Sales
(Thurs)

Quote

"The secret of change is to focus all your energy not on fighting the old but on building the new."

—Socrates, father of Western philosophy

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