

Equity Markets

U.S. stock posted weekly gains, with the NASDAQ surpassing both the S&P 500 and the DJIA for the fourth week in a row. After retail sales declined in February and March, U.S. retail sales posted a modest recovery in April, rising a seasonally adjusted 0.4%. The increase was partially driven by higher spending on automobiles, dining out, and internet sales.

	<u>5/15 Open</u>	<u>5/19 Close</u>	<u>Change</u>
Dow Jones	33,301	33,427	+0.5%
S&P 500	4,124	4,192	+1.7%
NASDAQ	12,285	12,658	+3.1%
KBW Bank Index	72.6	76.9	+5.9%
VIX	17.0	16.8	-1.2%
Oil (WTI)	69.6	71.8	+3.2%

(Continued) The question is whether the consumer can continue spending. There are signs that the consumer is getting winded. Debt-ceiling drama, turmoil in the banking sector and handwringing over the Fed's next move have all added to uncertainty but an index that tracks short-term stock market volatility remained well below the recent peak in mid-March. The Cboe Volatility Index ended the week almost 37% the peak on March 13, when regional bank turmoil triggered a spike in market volatility.

Interest Rates/Bonds

With many investors keeping a close eye on U.S. government debt ceiling negotiations in Washington, the yield of the 10-year U.S. Treasury bond rose to the highest level in more than two months. The 10-year was trading around 3.69% on Friday—up from the recent low of 3.29% in early April, yet still below the peak of 4.07% in early March.

	<u>5/15 Open</u>	<u>5/19 Close</u>	<u>Change</u>
3mo UST	5.11%	5.23%	12bp
2yr UST	3.98%	4.27%	29bp
5yr UST	3.44%	3.73%	29bp
10yr UST	3.46%	3.69%	23bp
2-10yr UST Spread	-52 bp	-58 bp	-6bp
10yr Inflation Rate	2.19%	2.25%	6bp

(Continued) For the week, the 2-year Treasury was up twenty-nine basis points, from 3.98% to 4.27%. Much of the increase in yields had to do with relatively strong retail sales and a few Federal Reserve officials opining that inflation remains a concern. December Fed Fund futures rose from 4.23% to 4.65%, week over week.

Washington

The SEC warned about the use of artificial intelligence by firms could prompt the next financial crisis as AI poses a potential "systemic risk" due to its proliferation. SEC Chair Gary Gensler said that data aggregators and AI platforms may become major components of the financial system's "fragility" in the future. Gensler highlighted that years from now, observers may look back and say, "the crisis in 2027 was because everything was relying on one base level,

(Continued) and a bunch of fintech apps are built on top of it." Former top executives of the recently failed banks appeared before the lawmakers to testify on the reasons that led to the debacle in the industry. Becker told the lawmakers that Silicon Valley Bank collapsed because of the rapidly rising interest rates along with the social media-driven panic that led to deposit outflows. Becker was questioned by lawmakers on the bank's interest rate risk management, uninsured deposit base and his sale of stock the month before the failure. Becker told the Senate Banking Committee that his financial

(Continued) institution "took risk management seriously." First Republic Bank's former CEO Michael Roffler said, "No one at First Republic could have predicted the collapse of Silicon Valley and Signature, the speed at which it happened or the impact it had on the banking industry." First Republic was in "a strong financial position with strong investment grade investments," before it was "contaminated overnight."

Economic Results 5/15 – 5/19

April Retail Sales: Retail sales rose 0.4% in April, after two months of declines, with American consumers showing continued spending power in the face of interest rate hikes, inflation and economic uncertainty.

April Housing Starts: Housing starts increased to 1.40 million in April, up 2.2% from revised March 2023 figures but down 22.3% from April 2022.

April Existing Home Sales: In April, sales of existing homes — which include single-family homes, townhomes, condominiums, and co-ops — dropped 3.4% from March. Annually, sales were down 23% from a year ago.

Economic Week Ahead

S&P PMI Composite
April New Home Sales
(Tues)

April Housing Starts (Wed)

1Q GDP (Thurs)

April PCE
UoM Consumer Sentiment
Durable Goods (Fri)

Quote

"Success usually comes to those who are too busy to be looking for it."

– Henry David Thoreau

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