

# Financial Week Newsletter

...as summarized by Smith Shellnut Wilson

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## Equities

- A week following a nearly 7% surge, the major U.S. stock indexes each slipped about 1%. For the Dow, it was the smallest weekly move in either direction in roughly a month. The VIX that measures investors' expectations of short-term stock market volatility has eased considerably since early May. The VIX traded at an index level of around 25 on Friday, down from a recent peak of nearly 35 on May 9.

|                | <u>5/27 Close</u> | <u>6/3 Close</u> | <u>Change</u> |
|----------------|-------------------|------------------|---------------|
| Dow Jones      | 33,213            | 32,900           | Down 0.8%     |
| S&P 500        | 4,158             | 4,158            | Down 1.2%     |
| NASDAQ         | 12,131            | 12,013           | Down 1.0%     |
| KBW Bank Index | 116.28            | 114.33           | Down 1.7%     |
| VIX            | 25.72             | 24.08            | Down 3.5%     |

## Interest Rates/Bonds

- After rising for three weeks in a row, prices of U.S. government bonds fell, sending yields sharply higher amid continuing concerns about persistent inflation and tightening monetary policy. The 10-year U.S. Treasury bond rose to 2.96% on Friday, up from 2.74% the previous week. The largest increase came from middle duration bonds, with the 5-year Treasury up 21 basis points, week over week.
- Rates may be under pressure later in the week with May CPI set to be released on Friday. A month earlier, the government reported that inflation accelerated in April at an 8.3% annual rate—slightly below the previous month's 8.5% figure, which was the highest since 1981.
- Bond market volatility, much like stock market volatility, continues to ease. The MOVE index has dropped by 28% since its high points in early May. This has tightened spreads on corporate and municipal bonds over the last few weeks.

|                     | <u>5/27 Close</u> | <u>6/3 Close</u> | <u>Change</u> |
|---------------------|-------------------|------------------|---------------|
| 3mo UST             | 1.01%             | 1.11%            | Up 10 bp      |
| 2yr UST             | 2.48%             | 2.65%            | Up 17 bp      |
| 5yr UST             | 2.72%             | 2.93%            | Up 21 bp      |
| 10yr UST            | 2.74%             | 2.93%            | Up 19 bp      |
| 2-10yr UST Spread   | 26 bp             | 28 bp            | Up 2 bp       |
| 10yr Inflation Rate | 2.66%             | 2.77%            | Up 11 bp      |

## Washington

- The prices for bonds backed by agency mortgage loans from government-owned lenders Fannie Mae and Freddie Mac, a \$5.5 trillion market, are falling, driven by the Federal Reserve's attempts to rein in inflation via interest rate hikes. The Fed's tightening plans might also include selling some of its \$2.7 trillion holdings of the bonds, which would potentially diminish their value further. Most analysts do not expect the Fed to start selling until next year. Some investors who specialize in the market are raising new funds to buy up bonds at a discount, per the Wall Street Journal.
- The Fed's latest Beige Book reported continued economic growth but also highlighted labor market difficulties and supply chain impediments as two key challenges to growth prospects. The manufacturing sector reported ongoing growth, while retail sector contacts experienced softening demand as consumers face higher prices. Residential real estate contacts reported weakness driven by high prices and rising interest rates.

## Economic Results

- The Conference Board Consumer Confidence Index dipped slightly in May, following a small increase in April. The Index now stands at 106.4, down from 108.6 in April.
- The Institute for Supply Management's Manufacturing PMI, a closely followed index of U.S.-based manufacturing activity, rose to 56.1% in May from 55.4% in April. Any number above 50% signals growth.
- ADP private payrolls increased by just 128,000 in May, the slowest growth of the recovery. Small business took the biggest hit. Leisure and hospitality also pulled back.
- The U.S. economy added 390,000 jobs in May, while the unemployment rate remained unchanged at 3.6%, The Wall Street Journal reported, citing the Department of Labor's monthly release of jobs data. Wage growth slowed in May to 5.2% from April's 5.5%.

## Week Ahead

Economic data scheduled to be released this week: April wholesale inventories (Wed), May CPI (Fri).

## Quote

"Great minds discuss ideas; average minds discuss events; small minds discuss people."

– Eleanor Roosevelt