

# Financial Week Newsletter

...as summarized by Smith Shellnut Wilson

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## Equity Markets

- U.S. stocks fell for a second consecutive week as worries about a Russian invasion of Ukraine and high inflation weighed on sentiment.

	<u>2/11 Close</u>	<u>2/18 Close</u>	<u>Price Change</u>
Dow Jones	34,738	34,079	Down 1.9%
S&P 500	4,419	4,349	Down 1.6%
NASDAQ	13,791	13,548	Down 1.8%
KBW Bank Index	141.47	137.20	Down 3.0%

## Financials

- Regulators closed no additional banks last week; year-to-date closures remain at zero.
- Expectations about corporate earnings growth are quickly diminishing, JPMorgan Chase & co. quant strategists said last week, warning that the gloom could spell more trouble for global stock markets after an underwhelming start to 2022.

## Credit Markets

- Unclear signals from Russia and the Fed, as well as mixed economic data, resulted in another volatile week for Treasuries, while the 10-year fell to a weekly low.

	<u>2/11 Close</u>	<u>2/18 Close</u>	<u>Yield Change</u>
3-month Tsy	0.36%	0.34%	Down 2 bps
2-year Tsy	1.51%	1.47%	Down 4 bps
5-year Tsy	1.86%	1.82%	Down 4 bps
10-year Tsy	1.94%	1.93%	Down 1 bp

- U.S. interest rates have soared everywhere except for savings accounts, as online banks promising high-yield offerings haven't budged on rates after 2022's sharp bond-market selloff; experts warn that as bond interest rates rise, it will be a slower process at banks.
- Barclays' strategists are advising clients to steer clear of bonds issued by public transit agencies due to weak ridership and uncertainties about returning to pre-pandemic levels, all while maintaining a positive position on many airport and toll road bonds.
- According to Bank of America Corp., benchmark municipal yields have already priced in a 10-year Treasury yield as high as 2.5%, and unless Treasury yields unexpectedly move beyond that, the risk of additional losses in municipal bonds should be considered unlikely.

## Treasury/Fed/Administration/Congress

- FOMC meeting minutes, released Wednesday, said most policy makers “noted that, if inflation does not move down as they expect, it would be appropriate for the Committee to remove policy accommodation at a faster pace than they currently anticipate; further, Federal Reserve Bank of St. Louis President James Bullard repeated his view that the Fed should raise interest rates by 100 basis points by July 1 and start balance-sheet run-off during the second quarter.
- The U.S. is unconvinced by Moscow’s claims of de-escalation on the Ukrainian border, with President Biden saying a “false flag” operation may already be underway and that the danger of an invasion remains “very high”. The White House said Monday that an executive order was imminent that will prohibit financial and trade activity by U.S. citizens within two Ukrainian regions under the control of Russian-backed separatists after Russian President Vladimir Putin declared he would recognize the independence of the two regions.

## Economy

- U.S. retail spending roared back to life to start the year, surging by the most in ten months and nearly doubling the 2% median estimate, highlighting a steady appetite for merchandise like cars and furniture.
- The producer price index for final demand increased in January 9.7% from a year ago and 1% from the prior month, pointing to persistent inflationary pressures as companies contend with supply-chain and labor constraints. “The combination of stubborn supply disruptions and elevated energy prices will prevent producer prices from reverting to more normal patterns until later this year, economists at Oxford Economics noted last week.
- New U.S. home construction fell 4.1% in January to a 1.64 million annualized rate, the first monthly decline in four months, indicating pandemic-related labor absences and winter weather tempered recent progress on building activity. Despite the decline in starts, applications to build rose to an annualized 1.9 million units.
- Sales of previously owned U.S. homes unexpectedly grew 6.7% in January to a one-year high as buyers rushed in ahead of a surge in mortgage rates, further depleting tight inventories to a record low.
- Production at U.S. factories rose modestly in January suggesting manufacturers are gradually working through pandemic-related shortages of materials and labor; total industrial production, which also includes mining and utility output jumped 1.4% for the month on a surge in heating demand.

## This Week

Economic data scheduled to be released this week include new home sales, pending home sales, durable goods orders, and the second reading of fourth-quarter GDP.

## Quote

“There are some things you learn best in calm, and some in storm.”

- Willa Sibert Cather

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