

Financial Week Newsletter

...as summarized by Smith Shellnut Wilson

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SSW Research Department
Office: (601) 605-1776
Email: chad.mckeithen@ssw1776.com
Website: www.ssw1776.com

Equity Markets

- Volatility continued to decline during the week. As calm settled in, most major indexes positively advanced during the week.

	<u>3/18 Close</u>	<u>3/25 Close</u>	<u>Price Change</u>
Dow Jones	34,755	34,861	Up 0.3%
S&P 500	4,460	4,543	Up 1.9%
NASDAQ	13,884	14,169	Up 2.1%
KBW Bank Index	129.90	131.34	Up 1.1%
VIX	24.04	20.81	Down 13.4%

Financials

- Regulators closed no banks last week; year-to-date closures remain at zero.
- Banks have benefited as rates have continued to rise. Rates/yields continued their surge and are now back to their highest levels in almost three years. Bank of America led the surge and was up 2.1% week over week.

Rates/Spreads

- Treasury yields were up across every Treasury segment. The curve negatively inverted, between 3 to 10 years, signaling the markets expectations that economic growth will begin to slow over the next few years.

	<u>3/18 Close</u>	<u>3/25 Close</u>	<u>Yield Change</u>
3mo UST	0.44%	0.53%	Up 9 bp
2yr UST	2.02%	2.27%	Up 25 bp
5yr UST	2.23%	2.55%	Up 22 bp
10yr UST	2.24%	2.47%	Up 23 bp
2-10yr UST Spread	+22bp	+20bp	Down 2 bp
10yr Inflation Rate	2.94%	2.98%	Up 4bp

- Mortgage rates continue to push higher with the benchmark 30-year mortgage rate crossing 4.50%.
- Investment grade credit spreads rose slightly week over week. Investors continue to monitor reverberations from a potential Russian debt default.

Treasury/Fed/Administration/Congress

- House Financial Services Committee Chairwoman Maxine Waters, D-Calif., sent a letter on March 24 to trade associations requesting information on the actions taken by American financial institutions and businesses to end their relationships and engagements in Russia and with businesses that support the Russian government.
- Federal Reserve Chair Jerome Powell re-emphasized the role the central bank must play in restoring price stability during a March 21 speech. "There is an obvious need to move expeditiously to return the stance of monetary policy to a more neutral level, and then to move to more restrictive levels if that is what is required to restore price stability," Powell said. "In particular, if we conclude that it's appropriate to move more aggressively by raising the federal funds rate by more than 25 basis points at a meeting or meetings, we will do so.
- Powell said that a U.S. central bank digital currency would need to ensure user privacy; be "identity verifiable" to prevent money laundering; be widely embraced by the current banking system; and serve as a widely accepted means of payment. Powell warned that there are financial stability concerns associated with cryptocurrencies and that they "have been used to facilitate illicit activities" that need to be prevented. The Fed is currently conducting research on digital currencies.

Economy

- New home sales declined, surprising analysts, even though the inventory of properties for sale has hit the highest level since 2008. Economists are not convinced the deceleration will help push home prices lower this year.
- Durable goods orders unexpectedly declined in February for the first time in a year, representing a pause in capital spending after a sharp rise a month earlier. Even with the surprise softness in orders last month, sustained monthly declines would be needed to signal a shift in what has otherwise been a healthy capital spending environment. One risk is that Federal Reserve interest-rate hikes may start to diminish corporate investment appetites.
- The University of Michigan's sentiment index dropped to 59.4 from 59.7 earlier in the month, data released Friday showed. U.S. consumer sentiment continued to worsen in late March to a fresh decade low as inflation erodes incomes.

This Week

Economic data scheduled to be released this week include Consumer confidence (Tues), Mar. ADP employment (Wed), 4thQ GDP (Wed), Consumer spending/PCE (Thur), Mar. Unemployment (Fri).

Quote

"Play by the rules, but be ferocious"

- Phil Knight

Smith Shellnut Wilson, LLC
661 Sunnybrook Road, Suite 130
Ridgeland, MS 39157-1813
Office: (601) 605-1776
Fax: (601) 605-1710
Website: www.ssw1776.com
