Financial Week Newsletter

. . .as summarized by Smith Shellnut Wilson

Mar. 7, 2022

SMITH SHELLNUT WILSON
AN AFFILIATE OF b1BANK

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

Equity Markets

- Overall, major equity indexes finished the week lower as geopolitical stress continued to weigh on market forecasts about disruptions to the global economy. Volatility remained front and center for the week as the VIX rose by almost 8%. Much of the equity volatility centers around energy prices and disruptions to energy flow. WTI Crude rose 26% from $91.59 a barrel to $115.68 a barrel.

	2/25 Close	3/4 Close	Price Change
Dow Jones	34,059	33,615	Down 1.3%
S&P 500	4,385	4,329	Down 1.3%
NASDAQ	13,695	13,313	Down 2.8%
KBW Bank Index	135.94	125.51	Down 7.7%
VIX	27.59	31.98	Up 15.9%

Financials

- Regulators closed no additional banks last week; year-to-date closures remain at zero.
- Financial stocks were especially hit hard as the market and investors try and get a handle on potential global collateral exposure. Bank stocks were down 7.7% over the past week and are now down almost 14% over the past month.

Rates/Spreads

- Treasury yields were down as global liquidity funneled into safety. The benchmark 2-year Treasury fell 13 basis points and the 10-year Treasury fell by 28 basis points.

	2/25 Close	3/4 Close	Yield Change
3mo UST	0.34%	0.33%	Down 1bp
2yr UST	1.57%	1.44%	Down 13 bp
5yr UST	1.87%	1.63%	Down 24 bp
10yr UST	1.97%	1.69%	Down 28 bp
2–10yr UST Spread	+40bp	+25bp	Down 15 bp

- The Treasury curve continued to flatten week over week with the benchmark 2-10 year Treasury spread narrowing to +25 basis points, down 15 basis points over the week, and now down from +157 basis points since last March.
- Interest rate volatility and credit spreads both continue to increase. The MOVE index, which is the markets measure of interest rate volatility, is up 83% for the year. Investment grade credit spreads have also widened rather quickly. The 5-year Markit CDX which measures credit spreads on 5-year investment grade U.S. companies has widened from 49 basis points to 75 basis points year to date.

Treasury/Fed/Administration/Congress

- The Federal Reserve's Jerome Powell said he would propose a 25-basis-point hike to the central bank's benchmark interest rate, the federal funds rate, when the rate-setting Federal Open Market Committee convenes in two weeks. This effectively ended a market debate over a 50-basis point hike that had recently grown to as high as a 41% pricing probability in the futures market.
- On Thursday, Powell appeared before the Senate Banking Committee and said that Russia's invasion of Ukraine was likely to put more pressure on inflation "at least for a while" due to the former's outsized role in global oil and natural gas markets.
- There is concern over only nine voting members being able to vote at the March 16 FOMC meeting. Republicans have held up recent confirmations over the Raskin nomination. This is leaving the twelve-member policy making arm three voters shy of where it is supposed to be. The market concern is that four of those nine (Bullard, George, Mester and Waller) have been relatively aggressive in rate hike calls.
- Senate Banking Committee Chairman Sherrod Brown, D-Ohio, Ranking Member Pat Toomey, R-Pa., Sen. Jon Tester, D-Mont., and Sen. Thom Tillis, R-N.C., introduced a bipartisan bill called the Economic Continuity and Stability Act that would seek to provide clear guidance and a consistent federal standard for contracts based on **Libor**, which is set to expire in mid-2023. Specifically, it would direct the Fed to determine replacement rates for contracts lacking fallback language by providing a safe harbor should a contract not specify a non-Libor replacement rate.

Economy

- The rise in the **ISM manufacturing index** to 58.6 in February, from 57.6, was another sign that demand remains strong, with the small rise in supplier delivery times and modest decline in the prices paid index highlighting that supply constraints are gradually easing.
- The stronger than expected 678,000 gain in **non-farm payrolls** (400k consensus) in February and upward revisions to previous months gains is another sign that the real economy has momentum, with the Omicron wave having had surprisingly little impact. That will give the Fed greater confidence to push ahead with its planned policy tightening but, with wage growth now levelling off, there is less pressure for officials to front-load an aggressive series of rate hikes over the coming months.

This Week

Economic data scheduled to be released this week include Jan. Trade Balance (Tue), Feb. CPI (Thu) and Univ of Michigan Sentiment (Fri).

Quote

"In the midst of chaos, there is also opportunity."

- Sun-Tzu, A Arte da Guerra

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

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