

Financial Week Newsletter

...as summarized by Smith Shellnut Wilson

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Equity Markets

- A strong start wasn't enough to prevent the major U.S. stock indexes from falling for the third week in a row, resulting in declines of around 2% to 4%. The market had been on track for a positive week until Thursday morning, when stocks began a steep descent that extended into Friday amid further signs of tightening monetary policy.

	<u>4/15 Close</u>	<u>4/22 Close</u>	<u>Change</u>
Dow Jones	34,451	33,811	Down 1.9%
S&P 500	4,393	4,272	Down 2.8%
NASDAQ	13,351	12,839	Down 3.8%
KBW Bank Index	116.73	116.05	Down 0.6%
VIX	22.70	29.68	Up 30.7%

Financials

- There were no bank failures during the week.
- Of the 32 financials that have reported 1st quarter earnings, 72% have beaten estimates. Yet despite this, the sector is tracking a year-over-year decline. This is mostly due to forward expectations regarding a reduction in loan loss reserve releases over the past year, a drop in mortgage refinance revenue and declining capital markets business. Additionally, some depositories increased provision for loan losses as concerns begin to rise for future economic volatility.

Rates/Spreads

- Concerns about inflation and the pace of interest-rate increases continued to weigh on prices of government bonds, sending yields to the highest levels in three and a half years. On Thursday last week, the yield of the 10-year U.S. Treasury bond briefly climbed as high as 2.95%; and on Friday last week, it was trading around 2.90%.

	<u>4/15 Close</u>	<u>4/22 Close</u>	<u>Change</u>
3mo UST	0.79%	0.77%	Down 2 bp
2yr UST	2.46%	2.67%	Up 21 bp
5yr UST	2.79%	2.93%	Up 14 bp
10yr UST	2.83%	2.90%	Up 7 bp
2-10yr UST Spread	36 bp	23 bp	Down 13 bp
10yr Inflation Rate	2.91%	2.99%	Up 8 bp

- It's looking increasingly likely that the U.S. Federal Reserve will accelerate the pace of its interest-rate increases, based on public comments last Thursday from Jerome Powell. The Fed chair said the central bank is likely to raise its benchmark rate by a half percentage point at its meeting on May 4th. It's more typical for the Fed to raise rates by a quarter point at a time, as it did in its March meeting. The December 2022 FOMC Fed Funds rate contract is currently priced at 2.70%.

Washington

- The Federal Reserve Bank of Chicago announced that President and CEO Charles Evans will retire from his position in early 2023. A search committee comprised of nonbanking members of the Chicago Fed's board has been formed to lead the search for the next president.
- The Consumer Financial Protection Bureau on April 20th issued a report highlighting medical billing challenges faced by individuals and families across the U.S. People reported receiving medical bills that are inaccurate or not owed, and they described difficulties identifying, verifying, or eliminating these bills. The CFPB said it will expand its efforts to address these and other challenges.

Economy

- New U.S. home construction rose unexpectedly in March (\$1.79mm, forecast was for \$1.74mm) to the highest level since 2006, boosted by multifamily projects as builders replenished housing inventory.
- Sales of previously owned U.S. homes fell 2.7% after falling 8.6% the prior month. Median home price rose 15% from last year to \$375,300. Days on the market at 17-18 days prior month.
- Two-thirds of manufacturers in the Federal Reserve's Philly Fed Manufacturing Index plan to increase wages and compensation more than originally planned this year, adding to costs and pouring fuel on already red-hot inflation.

This Week

Economic data scheduled to be released this week: March Durable Goods (Tue), April Consumer Confidence (Tue), March New Home Sales, 1st Qtr GDP (Thu), March Consumer Spending (Fri).

Quote

"I failed my way to success." - Thomas Edison

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

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