

Financial Week Newsletter

...as summarized by Smith Shellnut Wilson

May 2, 2022

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Equity Markets

- The major U.S. stock indexes fell for the fourth week in a row, declining 2% to 4% in choppy trading during the heart of earnings season. The NASDAQ trailed the S&P 500 and the Dow again and entered a bear market, having lost 23% since its record high on November 19, 2021. After relative calm in the first half of April, the past two weeks produced a 47% jump in volatility as measured by the VIX index.

	<u>4/22 Close</u>	<u>4/29 Close</u>	<u>Change</u>
Dow Jones	33,811	32,977	Down 2.47%
S&P 500	4,272	4,132	Down 3.3%
NASDAQ	12,839	12,335	Down 3.9%
KBW Bank Index	116.05	110.06	Down 5.2%
VIX	29.68	33.40	Up 12.5%

Financials

- There were no bank failures during the week.
- Financials continued to fall as concerns grow about forward profitability and credit exposure. Over the last few years, earnings were driven by government intervention. This will no longer be available in 2022. Banks and credit unions will be particularly impacted.

Rates/Spreads/Inflation

- Despite a flat result in the latest week, the yield of the 10-year U.S. Treasury bond jumped in March and April, climbing from 1.83% at the start of that two-month period to around 2.89% on Friday, April 29. Rising interest rates continue to erode bond prices and specifically structures with extension risk.

	<u>4/22 Close</u>	<u>4/29 Close</u>	<u>Change</u>
3mo UST	0.77%	0.81%	Up 4 bp
2yr UST	2.67%	2.72%	Up 5 bp
5yr UST	2.93%	2.96%	Up 3 bp
10yr UST	2.90%	2.93%	Up 3 bp
2-10yr UST Spread	23 bp	21 bp	Down 2 bp
10yr Inflation Rate	2.99%	2.94%	Down 5 bp

- The new week's agenda includes a policy meeting of the U.S. Federal Reserve that concludes on Wednesday. Policymakers are expected to approve an interest-rate increase of half a percentage point—twice as big as the quarter-point increase approved in mid-March. 2.70%.

- The U.S. Federal Reserve's preferred gauge for tracking inflation posted the highest 12-month gain in four decades, as April's Personal Consumption Expenditures Price Index jumped to 6.6%. However, Friday's report also indicated that inflation might be slowing, excluding typically volatile food and energy prices. On that basis, prices rose 5.2%.

Washington

- The U.S. Senate confirmed Fed governor Lael Brainard to become top adviser to Fed Chairman Jerome Powell with a 52-43 vote. Brainard, who received seven Republican votes in addition to 45 Democratic votes, has already been serving as a top lieutenant to Powell, so near-term monetary policy will remain the same.
- Appearing before the Senate Banking Committee on April 26, CFPB Director Rohit Chopra said the agency is analyzing the emerging role of large technology companies in the consumer payments sector. Chopra continued by explaining how these companies are "lurching toward a market structure" similar to that in China, where large technology companies have access to data on consumers, banks and other businesses, including financial companies they compete with. Chopra discussed with the House Financial Services Committee the CFPB's plan to invoke its authority to examine nonbanks the agency believes pose risks to consumers.

Economy

- Durable goods orders at U.S. factories for long-lasting goods (such as computers and cars) rose 0.8% in March, and business investment rebounded after the first decline in a year, signaling the economy is still growing at a steady pace. Durable goods — products meant to last at least three years — advanced for the sixth time in the last seven months.
- U.S. consumer confidence edged down in April, though households planned to buy automobiles and many appliances, which should help to underpin consumer spending in the second quarter.
- Sales of new U.S. single-family homes tumbled in March as soaring mortgage rates and prices reduced affordability, but the housing market remains supported by an acute shortage of previously owned properties.
- First-quarter GDP contracted at a 1.4% annualized rate, versus forecasts for a 1% advance. Consumption was up 2.7% and savings fell.

This Week

Economic data scheduled to be released this week: March Construction spending (Mon), March Factory orders (Tue), April ADP (Wed), FOMC rate decision (Wed), April jobs report (Fri).

Quote

"Whether you think you can or think you can't, you're right."

- Henry Ford

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