

Financial Week Newsletter

...as summarized by Smith Shellnut Wilson

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Equities

- After markets declined for the better part of three months and had fallen into bear market territory two weeks ago, the major U.S. stock indexes rebounded last week. The Nasdaq surged by more than 7% with the S&P and Dow close behind. The equity market will be anxiously awaiting Thursdays PCE index release to look for any sign that inflation has peaked.

	<u>6/20 Open</u>	<u>6/24 Close</u>	<u>Change</u>
Dow Jones	29,889	31,501	Up 5.4%
S&P 500	3,675	3,912	Up 6.5%
NASDAQ	10,798	11,608	Up 7.5%
KBW Bank Index	103.37	105.06	Up 2.2%
VIX	31.1	27.2	Down 12.5%

Interest Rates/Bonds

- Prices for U.S. government bonds rose for the second week in a row, sending the yield of the 10-year U.S. Treasury bond down to 3.13% on Friday. That is down from a recent high on June 14 of 3.48%, a level not seen since April 2011.
- Credit market volatility continues to increase as debt levels and slowing consumer spending are starting to put some pressure on future corporate profitability. On Thursday credit spreads reached their highest point since March 2020 and corporate credit spreads have only been higher than their current level twice in the last five years.
- The market is forecasting a peak in the Fed Funds rate of 3.75% (currently 1.58%), to be reached by year end 2022. Thereafter, the market predicts that it will retreat to 3.00% by 2025.

	<u>6/20 Open</u>	<u>6/24 Close</u>	<u>Change</u>
3mo UST	1.62%	1.57%	Down 5 bp
2yr UST	3.17%	3.06%	Down 11 bp
5yr UST	3.34%	3.18%	Down 16 bp
10yr UST	3.23%	3.13%	Down 10 bp
2-10yr UST Spread	6 bp	6 bp	Flat
10yr Inflation Rate	2.60%	2.57%	Down 3 bp

Washington

- In an attempt to bring the Deposit Insurance Fund to its statutory minimum of 1.35% by the September 2028 deadline, the Federal Deposit Insurance Corp.'s board proposed an increase in deposit insurance assessment rates by 2 basis points for all insured depository institutions. The fund balance dropped in the first quarter by \$100 million to \$123 billion, its first decline in over a decade, and the fund reserve ratio declined four basis points sequentially to 1.23%.
- The latest Federal Reserve stress tests of large banks revealed an increase in projected losses compared to last year, putting pressure on capital requirements at the banks and creating headwinds for shareholder payouts. The Fed conducts the stress tests annually to help ensure that big banks have the capacity to keep lending during a severe recession. The size of hypothetical losses for each bank are also used to determine stress capital buffers. Banks are allowed to pay dividends and repurchase shares without restriction if they do not eat into their stress capital buffers.
- Fed Chair Jerome Powell said at a congressional hearing on June 22 that the central bank could lift the interest rates high enough to cause a recession as it looks to tame 40-year-high inflation. "It's not our intended outcome at all, but it's certainly a possibility," Powell said. The Fed chair highlighted that the central bank was not "trying to provoke" a recession and may not need to do so but considers it "absolutely essential" to cool down the red-hot inflation.

Economic Results – Last Week

- Total existing home sales in May, the most recent month for which data is available, fell 3.4 percent over April to a seasonally adjusted annual rate of 5.41 million units. From a year earlier, sales sank 8.6 percent.
- New home sales rose more than expected in May despite higher mortgage rates. New home sales jumped 10.7% to an actual level of 696K (forecast was 590K).
- The final estimate of the consumer sentiment index published Friday by the University of Michigan came in at 50.0 in June, down from 58.4. The reading marks the lowest point since the inception of the survey in the late 1940s.

Economic Data - Week Ahead

May Durable Goods Orders (Mon), June Consumer Confidence (Tues), 1st Qtr GDP (Wed), May PCE Index (Thu), May ISM (Fri)

Quote

"You only have to do a few things right in your life so long as you don't do too many things wrong."

– Warren Buffett

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