SMITH SHELLNUT WILSON
AN AFFILIATE OF b1 BANK

Financial Week Newsletter

As summarized by Smith Shellnut Wilson

Week Ending 7/1/22

Equities

- Equities could not maintain their positive momentum following the previous week's rally. All major indexes fell around 1% to 4% for the week. There have only been two positive weeks out of the last thirteen and as markets closed out the first half of 2022 the S&P 500 closed out the first half of the year down 21%, for the worst first half since 1970.

	6/27 Open	7/1 Close	Change
Dow Jones	31,501	31,097	Dn 1.3%
S&P 500	3,912	3,825	Dn 2.2%
NASDAQ	11,608	11,128	Dn 4.1%
KBW Bank Index	105.1	102.6	Dn 2.4%
VIX	27.2	26.7	Dn 1.8%

Interest Rates/Bonds

- Bond prices climbed for the third straight week, sending the 10-year Treasury yield down from 3.13% to 2.89%. Three weeks ago, the benchmark yield had reached as high as 3.49%, which was the highest yield level since 2011. The yield on the 2-year had reached as high as 3.45%.
- The rise in prices/falling yields has primarily been driven by growing recession fears. On Friday, The Institute for Supply Management's manufacturing gauge fell more than expected in May, and one component of Friday's report that tracks manufacturing orders and employment slipped below 50—a level suggesting activity is contracting rather than growing.

	6/27 Open	7/1 Close	Change
3mo UST	1.57%	1.61%	Up 4 bp
2yr UST	3.06%	2.83%	Dn 11 bp
5yr UST	3.18%	2.88%	Dn 30 bp
10yr UST	3.13%	2.89%	Dn 24 bp
2–10yr UST Spread	6 bp	6 bp	Flat
10yr Inflation Rate	2.60%	2.38%	Dn 22 bp

Washington

- The Fed's preferred gauge showed that inflation remained elevated in May, driven by a jump in energy and food. The Commerce Department's personal-consumption expenditures price index, released June 30, showed that consumer prices were up 6.3% year over year in May. The core PCE index, which excludes food and energy prices, rose 4.7% year over year in May, compared to a 4.9% increase in April.

- Following the latest Federal Reserve stress test, Bank of America Corp., Citigroup Inc. and JPMorgan Chase & Co. face a higher-than-anticipated increase in their stress capital buffers. Regulatory thresholds for Tier 1 common equity ratios at the three banks are going up by 80 to 100 basis points, larger increases than analysts expected, as a result of the annual exercise. Once new regulatory requirements become effective Oct. 1, the three banks would be required to add $1.53 billion to $2.22 billion in capital. As a result, the trio will be in greater capital deficit positions and may find their ability to buy back shares curtailed unless there is a more significant reduction in risk-weighted assets, which could reduce revenues.

Economic Results – Last Week

- May preliminary durable goods orders increased 0.7% in May, following a 0.4% gain in April, the 11th increase in the last 13 months. The May gain puts the level of total durable-goods orders at $267.2 billion, the second highest on record.
- Consumer Confidence slumped in June to the lowest level in over a year. Consumers grew more pessimistic about the state of the economy in June, pushing the Conference Board's consumer confidence survey down below 100 and to the lowest level since February 2021. The June consumer index fell to 98.7 from 103.2 in May.
- The Fed's preferred inflation gauge held at stubbornly elevated levels in May. Core PCE prices, excluding food and energy, rose 4.7% from a year ago, slightly less than expected.
- The Institute for Supply Management's barometer of American factories fell to a two-year low of 53% in June. The ISM index dropped 3.1 points from 56.1% in May. While any number above 50% signals growth, it was the lowest level since June 2020.

Economic Data - Week Ahead

May Factory Orders (Tue), June ISM Nonmanufacturing (Wed), Change in Nonfarm payrolls (Fri)

Quote

"The only place success comes before work is in the dictionary." – Vidal Sassoon