

Equity Markets

Inflation and central bank policy were in the driver's seat last week. June's stronger than expected rise in CPI pushed headline inflation to a 41-year high.

	<u>7/11 Open</u>	<u>7/15 Close</u>	<u>Change</u>
Dow Jones	31,338	31,288	Dn 0.2%
S&P 500	3,899	3,863	Dn 0.9%
NASDAQ	11,635	11,452	Dn 1.6%
KBW Bank Index	103.0	104.0	Up 1.0%
VIX	24.6	24.2	Dn 1.5%

This suggests the Fed will have more to do, some speculating a 100-basis point hike on July 27, to achieve its price stability mandate. Oil fell below \$100 for the first time since May. Equities finished the week slightly lower with technology seeing the largest declines.

Interest Rates/ Bonds

Yields were mostly down (prices up) week over week and the curve continued to flatten/invert.

The CPI inflation spike puts the Fed in a tricky situation. Even if June's CPI 9.1% level ends up being a peak for this cycle the Fed is under pressure

because inflation is unlikely to return to a 2% target anytime soon.

A portion of the market is pricing in a 100-basis point hike at the July FOMC meeting. CME Group shows that current option probabilities are pricing in a 29.1% chance of the overnight rate moving to 2.50-2.75 this month with 70.9% predicting a 75-basis point hike.

Last week, the closely followed 10 to 2-year yield curve - the difference between the 10-year and two-year Treasury yields - turned the most negative (most inverted)

since 2000. Currently, higher shorter-term yields reflect the Fed rate hikes, while lower longer-term rates signal potentially weaker expectations for growth. In the past, an inversion has reliably predicted recessions, as it indicates financial conditions are tightening too fast.

	<u>7/11 Open</u>	<u>7/15 Close</u>	<u>Change</u>
3mo UST	1.85%	2.25%	Up 24 bp
2yr UST	3.12%	3.12%	Unch
5yr UST	3.13%	3.03%	Dn 10 bp
10yr UST	3.08%	2.92%	Dn 16 bp
2-10yr UST Spread	-2 bp	-20 bp	Dn 18 bp
10yr Inflation Rate	2.37%	2.37%	Unch

Washington

After a monthslong wait, Michael Barr's nomination to become vice chair for supervision of the Fed Board received the green light from the Senate with a 66-28 vote July 13. Barr is expected to develop policies related to evaluating

merger applications and addressing capital requirements.

Financial institutions would be allowed to lend to cannabis companies under a defense authorization bill passed by the U.S. House late July 14. The bill would allow marijuana-related businesses in states with some form of legalized marijuana and strict regulatory structures to access the banking system

Democratic lawmakers continue to push for legislation to curb the overdraft fees charged by banks, despite several banks in recent months either reducing or eliminating such fees. Rep. Carolyn Maloney, D-N.Y., and Sens. Cory Booker, D-N.J., and Elizabeth Warren, D-Mass., on July 12 pressed for federal legislation to restrict overdraft fees.

Economy Results 7/11 – 7/15

June CPI - Consumer inflation in the U.S. reached a 41-year high of 9.1%, prompting calls for the Fed to act more aggressively, Data released by the U.S. Labor Department on July 13 showed a sharp rise in gasoline prices, jumping 11.2% from May and

nearly 60% from a year ago, playing a significant role in inflation, including in shelter and food prices.

June PPI – June PPI came in higher than expected at 1.1% for the month and 11.3% from a year ago.

June Retail Sales – Retail sales rose 1% between May and June, which beat expectations and easing some fears of recession.

UofM Consumer Sentiment - U.S. Consumer Sentiment unexpectedly showed a modest improvement, at 51.1, in July following a record low of 50.0 in June.

Week Ahead

June New Housing Starts (Tue), June Existing Home Sales (Wed), Philly Fed Business Outlook (Thu)

Quote

“Those who dare to fail miserably can achieve greatly.”

– John F. Kennedy

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