

Financial Week Newsletter

. . .as summarized by Smith Shellnut Wilson

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Equities

- The FOMC took an aggressive stance on Wednesday and increased the overnight rate by 75 basis points. It was the largest rate hike since 1994. U.S. stock indexes fell around 5% to 6% for the second week in a row, with the S&P 500 and the NASDAQ posting the tenth negative weekly results out of the past eleven. Those two indexes retreated to levels last seen in late 2020; the Dow closed below 30,000 for the first time since January 2021. For a second straight week market volatility increased as inflation is beginning to show up in multiple segments of the economy.

	<u>6/13 Open</u>	<u>6/17 Close</u>	<u>Change</u>
Dow Jones	31,393	29,889	Down 4.7%
S&P 500	3,901	3,675	Down 5.7%
NASDAQ	11,340	10,798	Down 4.8%
KBW Bank Index	105.37	105.37	Down 7.8%
VIX	27.8	31.1	Up 8.2%

Interest Rates/Bonds

- The short end of the curve increased more than the intermediate and longer end of the curve. This was a result of the Fed increasing overnight rates by 25 basis points more than what the market was pricing in one week ago. As a result, the curve flattened/inverted, with 2-to-10-year spreads tightening to 6 basis points.
- There were moments during the week where investors were retreating from both equity and bond markets simultaneously, as both segments experienced heavy sell offs.
- The FOMC appears to be taking inflation much more seriously and the futures market adjusted accordingly. Fed fund futures are now forecasting that the FOMC will hit a peak with its overnight rate in February of 2023 at a range of 3.75% – 4.00%. The range is currently at 1.50% – 1.75%

	<u>6/13 Open</u>	<u>6/17 Close</u>	<u>Change</u>
3mo UST	1.28%	1.62%	Up 34 bp
2yr UST	3.04%	3.17%	Up 13 bp
5yr UST	3.26%	3.34%	Up 8 bp
10yr UST	3.16%	3.23%	Up 7 bp
2-10yr UST Spread	11 bp	6 bp	Down 5 bp
10yr Inflation Rate	2.79%	2.60%	Down 19 bp

Washington

- To soothe 40-year-high inflation, the Federal Reserve announced a 75-basis-point hike in the federal funds rate on June 15. The Fed is "moving expeditiously" to extinguish rising prices as ongoing geopolitical tensions and supply chain issues continue to take a toll on the U.S. economy. The markets were expecting an expedited withdrawal of the accommodative monetary policy, and it prompted a relief rally in U.S. bank stocks. The KBW Nasdaq Bank Index closed up 1.6% and the S&P 500 gained 1.5% on June 15. However, the rally was temporary and fizzled out on June 16 as U.S. and global stock indexes slumped. Despite the Fed's efforts to control inflation, investors are concerned about the danger posed to the economy following years of low rates and tepid consumer price increases.
- Sen. Elizabeth Warren, D-Mass.; Rep. Katie Porter, D-Calif.; and Rep. Jesús Garcia, D-Ill., urged Acting Comptroller of the Currency Michael Hsu to block Toronto-Dominion Bank's proposed merger with First Horizon Corp., following a recent Capitol Forum report that revealed alleged unchecked fraud and abuse at TD Bank.
- The U.S. House of Representatives passed a broad financial inclusion measure, the Financial Services Racial Equity, Inclusion, and Economic Justice Act, or H.R. 2543, by a 215-207 vote. It includes provisions for credit unions to expand into underserved areas. The bill cleared the House floor despite intense opposition by banking industry groups over the language of the credit union provision. In a June 13 statement of administration policy, the White House said it would support the passage of the bill as it promotes economic equality across racial and ethnic groups.

Economic Results – Last Week

- PPI, a gauge of the price of wholesale goods, ticked down to 10.8% for the year ending in May, according to a report Tuesday from the Bureau of Labor Statistics, near the highest on record.
- Retail sales posted an unexpected 0.3% decline in May as inflation hammers consumers. Sales were well below April numbers.
- The FOMC hike rates 75 basis points for the largest rate increase in almost 30 years.
- May housing starts totaled 1.55 million (SAAR), down 14.4% from April 2022 and down 3.5% from May 2021, according to the U.S. Census Bureau

Economic Data - Week Ahead

May Existing Home Sales (Tue), May New Home Sales (Fri), UofM Consumer Sent (Fri)

Quote

“Business opportunities are like buses, there’s always another one coming.”

– Richard Branson

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