

Financial Week Newsletter

...as summarized by Smith Shellnut Wilson

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Equity Markets

- The losing streak for the Dow extended to seven weeks – the longest such string for that index in decades. The S&P 500 and NASDAQ fell for the sixth week in a row. The S&P 500 retreated to its lowest level since March 2021. As of Friday's close, the S&P 500 was down more than 16% from its record high in early January and the Dow was nearly 13% lower. The NASDAQ was off almost 27% from its record set last November.

	<u>5/6 Close</u>	<u>5/13 Close</u>	<u>Change</u>
Dow Jones	32,899	32,197	Down 2.1%
S&P 500	4,123	4,024	Down 2.4%
NASDAQ	12,145	11,805	Down 2.8%
KBW Bank Index	112.50	107.31	Down 4.6%
VIX	30.19	28.87	Down 4.4%

Financials

- Financials were one of the worst performing sectors week over week. The plunge correlated with Jerome Powell's comments that he could not guarantee a soft landing as the Fed tries to tame inflation.

Rates/Spreads/Inflation

- Bond yields rallied dramatically, week over week, as investors targeted safety following Wednesday's market miss on CPI inflation (8.3% YoY actual vs consensus of 8.1%). The 10yr Treasury dipped down to 2.82% on Thursday.

	<u>5/6 Close</u>	<u>5/13 Close</u>	<u>Change</u>
3mo UST	0.80%	0.93%	Up 13 bp
2yr UST	2.73%	2.58%	Down 15 bp
5yr UST	3.08%	2.87%	Down 21 bp
10yr UST	3.13%	2.92%	Down 21 bp
2-10yr UST Spread	33 bp	34 bp	Up 1 bp
10yr Inflation Rate	2.86%	2.74%	Down 12 bp

Washington

- The Senate confirmed Federal Reserve Chairman Jerome Powell to a second four-year term and also confirmed the nominations of Lisa Cook and Philip Jefferson to seats on the Fed Board of Governors. Powell's nomination was approved in an 80-19 vote on May 12, while those of Cook and Jefferson were approved with votes of 51-50 and 91-7, respectively, earlier this week. Cook needed Vice President Kamala Harris' tie-breaking vote to get confirmed.
- Treasury Secretary Janet Yellen reiterated her call for Congress to regulate stable coins following a significant decline this week in TerraUSD. The fourth largest stable coin and 10th-largest cryptocurrency by market value, according to CoinMarketCap, saw its price hit sixty-nine cents on Monday despite it being designed to remain fixed at \$1. "I think that simply illustrates that this is a rapidly growing product and that there are risks to financial stability," Yellen said May 10 at Senate Banking Committee hearing. "We really need a consistent federal framework."
- The Dallas Fed appointed Lorie Logan president and CEO, effective Aug. 22. Logan will replace Robert Kaplan, who retired from the Dallas Fed on Oct. 8, 2021.

Economic Results

- April CPI inflation barreled ahead at 8.3% (consensus 8.1%) in April from a year ago, remaining near 40-year highs. Core CPI, which excludes food and energy, also was higher than expected, rising 6.2%. Inflation-adjusted earnings continued to decline for workers, falling 2.6% over the past year due to the surging cost of living.
- The annual rate of US Producer Price Inflation (PPI) fell to 11.0% in April, above expectations for a fall to 10.7%, from 11.2% in March. MoM, headline producer price pressures came in at 0.5% as expected, falling back from a 1.6% MoM gain in March. The price of goods moved particularly higher for cars, equipment and different types of fuel/energy.
- The University of Michigan gauge of US consumer sentiment dropped to a fresh cycle low as gasoline prices reached new highs in the beginning of May. The latest report highlights that the level of consumer optimism continues to hinge on the inflation outlook. The preliminary May report noted that buying conditions for durables recorded their lowest reading since 1978, primarily due to soaring prices.

Week Ahead

Economic data scheduled to be released this week: April Retail Sales (Tues), April Housing Starts (Wed), Phil Fed Manufacturing Index (Thur), Existing Home Sales (Thur)

Quote

"Always deliver more than expected."

— *Larry Page, founder of Google*

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