

Financial Week Newsletter

...as summarized by Smith Shellnut Wilson

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Equity Markets

- The major U.S. indexes fell for the fifth week in a row after a rapid shift in sentiment following the Fed's +50bp rate hike on Wednesday. An employment report on Friday showed the economy generated 428,000 jobs in April, and the major indexes ended up with modest weekly declines.

	<u>4/29 Close</u>	<u>5/6 Close</u>	<u>Change</u>
Dow Jones	32,977	32,899	Down 0.2%
S&P 500	4,132	4,123	Down 0.2%
NASDAQ	12,335	12,145	Down 1.5%
KBW Bank Index	110.06	112.50	Up 2.2%
VIX	33.40	30.19	Down 9.6%

Financials

- There were no bank failures during the week.
- Despite the Fed's big rate boost, most depositories are indicating that they plan to hold off on increasing deposit rates. With the largest banks sitting on large sums of pandemic related liquidity, this should hold true.

Rates/Spreads/Inflation

- Prices of government bonds fell, sending the yield of the 10-year U.S. Treasury Bond surging late in the week. The yield jumped from 2.92% to 3.07% on Thursday before climbing to 3.13% on Friday, the highest level since November 2018. As recently as mid-2020, the yield was around 0.50%.

	<u>4/29 Close</u>	<u>5/6 Close</u>	<u>Change</u>
3mo UST	0.81%	0.80%	Down 1 bp
2yr UST	2.72%	2.73%	Up 1 bp
5yr UST	2.96%	3.08%	Up 12 bp
10yr UST	2.93%	3.13%	Up 20 bp
2-10yr UST Spread	21 bp	33 bp	Up 12 bp
10yr Inflation Rate	2.94%	2.86%	Down 8 bp

Washington

- The Fed raised the overnight rate by half a percentage point and announced plans to reduce its \$9 trillion asset portfolio starting June 1. The moves will raise the central bank's benchmark federal-funds rate to a target range between 0.75% and 1%. The two-prong

move is the most aggressive tightening of monetary policy in decades as it tries to rapidly lower rising price pressures. The Fed last raised rates by a half point in 2000. The Fed approved the decision unanimously. The committee said it "anticipates that ongoing increases in the target range will be appropriate," setting the stage for another large rate rise next month.

- The Fed, FDIC, and the OCC released their long-awaited joint proposal to amend the 1977 Community Reinvestment Act, which requires banks to provide services to low- and moderate-income (LMI) communities. Under the new rules, the regulators would assess online and mobile banking, branchless banking, and hybrid models, and would scrutinize smaller-value loans and investments "that can have high impact and be more responsive to the needs of LMI communities. The CRA framework would categorize banks based on size and business models; defining small banks as having less than \$600 million; intermediate banks as having between \$600 million and \$2 billion in assets; and large banks as having more than \$2 billion in assets. Smaller banks would continue to be evaluated under the existing CRA regulatory framework, but they would be given the option to be evaluated under aspects of the new framework. Examiners would look at banks' activities both in the physical communities where they operate and across the country.
- Sens. Elizabeth Warren, D-Mass., and Cory Booker, D-N.J., as well as Rep. Carolyn Maloney, D-N.Y., in letters sent to JPMorgan Chase & Co., Wells Fargo & Co. and Bank of America, criticized the giant banks for continuing to profit from overdraft fees.

Economic Results

- U.S. March construction spending barely rose 0.1%; Est. 0.8%.
- U.S. March factory goods orders beat expectations and rose 2.2%; Est. 1.2%.
- ADP says U.S. firms added 247k jobs in April, below est.
- The Fed hiked overnight rates by 50bps and indicated similar moves ahead.
- Employers added 428,000 (est. 395K) jobs in April as the unemployment rate remains at 3.6%. Hourly earnings rose by 0.3% MoM. Participation rate dropped to 62.2% from 62.4%.

Week Ahead

Economic data scheduled to be released this week: April CPI (Wed), April PPI (Tue), UofM Consumer Sentiment (Fri)

Quote

"Formal education will make you a living; self-education will make you a fortune." Jim Rohn

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