Financial Week Newsletter

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SMITH SHELLNUT WILSON

INVESTMENT COUNSEL AND MANAGEMENT

SSW Research Department
Office: (601) 605-1776
Email: rayt@ssw1776.com
Website: www.ssw1776.com

. . .as summarized by Smith Shellnut Wilson

Equity Markets

- U.S. equity markets rose last week, led by technology shares.

	5/21 Close	5/28Close	Price Change
Dow Jones	34,208	34,529	Up 0.9%
S&P 500	4,156	4,204	Up 1.2%
NASDAQ	13,471	13,749	Up 2.1%
KBW Bank Index	132.30	133.62	Up 1.0%

Financials

- Regulators closed no additional banks last week; year-to-date closures remain at zero.

Credit Markets

- Intermediate-term U.S. Treasury rates fell slightly last week on receding inflation concerns.

	5/21 Close	5/28 Close	Yield Change
3-month Tsy	0.00%	0.01%	Up 1bps
2-year Tsy	0.15%	0.14%	Down 1 bps
5-year Tsy	0.82%	0.80%	Down 2 bps
10-year Tsy	1.62%	1.60%	Down 2 bps

- A slew of newer and lesser known reference rates are staking their claim to a share of the post-LIBOR landscape as the outlook for the space grows increasingly fractured. Once considered afterthoughts in the race to replace the London intrebank offered rate, a clutch of upstart challengers, from Ameribor and BSBY to ICE's Bank Yield Index, have been gaining traction, or at least garnering more attention, in recent months.

- Financial institutions flush with cash have flocked to the Federal Reserve's reverse repurchase facility, loaning the U.S. central bank money at 0% interest and raising concerns in the bond market that key short-term interest rates could actually fall below zero.

- The U.S. government's $40 billion sale of four-week bills last week went off with a yield of 0%, the first time that has happened since March 2020, in the early months of the coronavirus pandemic, while the Treasury also sold $40 billion of eight week bills at 0.01%--existing rules prevent issuing debt at negative yields at auctions.

Treasury/Fed/Administration/Congress

- Fed officials pushed back last week against the threat that a spike in price pressures will prove lasting as the U.S. economy reopens. Governor Lael Brainard, Atlanta Fed President Raphael Bositic and St. Louis Fed President James Ballard all said that they would not be surprised to see bottlenecks and supply shortages push prices up in the coming months as the pandemic recedes and pent-up consumer demand is unleashed, but most of the price gains should prove temporary.

- Federal Reserve Bank of Richmond President Thomas Barkin last week noted that surging housing prices are being driven by a jump in demand and constrained supply but not by excess leverage, reducing the risk to the broad financial system should prices fall.

- The Feder Reserve stuck to its strategy of supporting the economy and labor markets with ultra-low interest rates at its most recent gathering of senior central bankers, noting that indicators of economic activity and employment have strengthened amid progress on vaccinations and strong policy support.

Economy

- Sales of new U.S. homes declined in April by 5.9% as higher prices continued to restrain demand; the median sales price of a new home rose 20.1% during the month on a year-over-year basis, according to government data released last week.

- Powered by consumer spending, the U.S. economy grew at a brisk 6.4% annual rate in the first quarter, following a 4.3% annualized gain the fourth quarter of last year--a show of strength fueled by government aid and a re-opening of economic activities; growth in the April-June period is expected to be faster still, potentially reaching an annualized pace of 10%.

This Week

Economic data scheduled to be released this week include new home sales, durable goods orders, and a second look at first-quarter GDP.

Quote

"An idea not coupled with action will never get any bigger than the brain cell it occupied."

-- Arnold Glasow

Smith Shellnut Wilson, LLC
661 Sunnybrook Road, Suite 130
Ridgeland, MS 39157-1813
Office: (601) 605-1776
Fax: (601) 605-1710
Website: www.ssw1776.com

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