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Financial Week Newsletter

Summarized by Smith Shellnut Wilson

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"The surest test of discipline is its absence." Clara Barton

MARKETS

Macro Recap: A duo of reports indicates that inflationary pressures persist, even as U.S. interest rates maintain their highest level since 2001. Released on Tuesday, a report on consumer prices and an update on producer prices issued on Thursday both revealed price gains slightly surpassing economists' expectations. The Consumer Price Index for February registered an annual rate of 3.2%, up from 3.1% the previous month. Despite the CPI report, the market appeared unfazed, with the S&P reaching a new high on Tuesday following its release.

February saw a 0.6% increase in U.S. retail sales, slightly below economists' consensus estimate but an improvement from January's 1.1% decline.

Against the backdrop of tightening oil supplies, the price of U.S. crude climbed approximately 4% for the week, peaking at around $81.60 per barrel on Thursday afternoon. Although it slipped to around $81.00 on Friday, oil remained near its highest level in over four months.

Equity Recap: For the second consecutive week, the major U.S. stock indexes experienced declines, as Tuesday's solid daily gain was offset by losses later in the week. The Dow Jones Industrial Average remained unchanged from the previous week, while the S&P 500 saw a marginal decline of 0.1% and the Nasdaq Composite recorded a loss of 0.7%. The modest two-week downturn contrasts with the four-month rally that preceded it, during which the S&P 500 climbed in 16 out of 18 weeks.

Among the 11 S&P 500 sectors, six registered declines. The real estate sector, sensitive to interest rate changes, experienced the most significant decline, dropping by 3.1%. Following closely behind was the consumer discretionary sector, which declined by 1.2%. On the other hand, the energy sector saw the largest gain, jumping by 3.7%, while the materials sector registered a 1.5% gain.

Bond/Rate Recap: The Treasury market reacted more significantly to the week's hotter-than-expected inflation reports. Yields on U.S. government bonds increased as the latest inflation data influenced the interest rate outlook. Following a decline the previous week to 4.08%, the yield on the 10-year note surged by 21 basis points to close at 4.31% on Friday. Similarly, the yield on the 2-year note settled 23 basis points higher at 4.72%.

Week Ahead: The U.S. Federal Reserve is anticipated to maintain its benchmark interest rate after its two-day meeting on Wednesday. Market participants will be attentive to any hints regarding the timing of potential rate cuts later this year. According to trading in Fed funds futures, most investors anticipate that the Fed's transition to a rate-cutting stance is probable to commence either in June or July.

INDICES

	Mar 15 Close	Mar 11 Open	Weekly Change	Dec 31 2023	YTD Change
DJIA	38,715	38,723	0.0%	37,690	2.7%
S&P 500	5,117	5,124	-0.1%	4,770	7.3%
NASDAQ	15,973	16,085	-0.7%	15,011	6.4%
Russell 2000	2,039	2,083	-2.1%	2,027	0.6%
KBW Bank Indx	98.1	99.2	-1.2%	96.0	2.1%
VIX	14.4	14.7	-2.2%	12.5	15.7%
Oil (WTI	$81.04	$78.01	3.9%	$72.57	11.7%
Prime	8.50	8.50	0.00	8.50	0.00
BTFP Rate	5.40	5.40	0.00	4.84	0.56
3m Tbill	5.37	5.38	-0.01	5.33	0.04
2yr UST	4.73	4.47	0.25	4.25	0.48
10yr UST	4.31	4.07	0.23	3.88	0.43
2-10yr UST Spread	-42	-40	-2	-37	-5
2y AAA Muni/10y UST	59.4%	62.0%	-2.6%	58.9%	0.5%
10y AAA Muni/10y UST	56.9%	60.4%	-3.5%	58.5%	-1.6%
5yr Inflation Rate	2.44	2.39	0.05	2.15	0.29

Week Ahead

- **Monday:** Housing Market Index
- **Tuesday:** Housing starts
- **Wednesday:** FOMC policy meeting
- **Thursday:** Leading Economic Index, Existing home sales
- **Friday:** No major reports

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