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Financial Week Newsletter

Summarized by Smith Shellnut Wilson

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"Perhaps too much of everything is as bad as too little." Edna Ferber

MARKETS

Macro Recap: As anticipated, the committee unanimously decided to maintain the target range for the fed funds rate at 5.25-5.50%. The highly scrutinized dot plot, featured in the updated Summary of Economic Projections (SEP), revealed that despite recent inflation figures surpassing expectations, the Fed still foresees three rate cuts this year. During Fed Chair Powell's press conference following the FOMC policy announcement, he largely reiterated previous statements, emphasizing the necessity for further evidence that inflation is progressing towards the 2% target before considering rate cuts. Additionally, Mr. Powell mentioned that it would be appropriate to scale back the pace of asset runoff soon. Expectations for rate cuts increased following the announcement, with the implied probability of a June cut rising to 75.4% from 58.8% last week, according to the CME FedWatch Tool.

Meanwhile, amidst a minor retreat in historically high mortgage rates, U.S. sales of existing homes in February experienced the largest monthly surge in a year. According to the National Association of Realtors, sales soared by 9.5% to a seasonally adjusted annual rate of 4.38 million.

Equity Recap: The stock market witnessed a modest upward trend early in the week, which gained momentum following the Fed policy announcement on Wednesday. This led to the major indexes posting their most substantial gains of the week and reaching new record highs. The S&P 500 notably surged by 2.3%, achieving a close above 5,200 for the first time. Similarly, the Nasdaq Composite experienced a notable increase of 2.9%, while the Dow Jones Industrial Average recorded a solid gain of 2.0%.

Furthermore, an index tracking investors' expectations of short-term U.S. stock market volatility dipped to its lowest level in over six weeks. The CBOE Volatility Index witnessed a decline of approximately 9% for the week. Relative to a recent intraday high on March 11, the VIX observed an 18% decrease.

Bond/Rate Recap: The movement in Treasuries' prices further bolstered the positive sentiment in the stock market. Specifically, the yield on the 2-year note decreased by 12 basis points to 4.60%, while the yield on the 10-year note dropped eight basis points to 4.22%.

Week Ahead: An upcoming report slated for release on Friday holds the potential to alleviate some of the prevailing uncertainty regarding the trajectory of inflation. The Personal Consumption Expenditures Price Index stands as the preferred measure for tracking inflation by the U.S. Federal Reserve. While this index witnessed a subdued increase in January, marking the slowest pace since March 2021, two subsequent reports on inflation yielded figures slightly surpassing expectations.

INDICES

	Mar 22 Close	Mar 18 Open	Weekly Change	Dec 31 2023	YTD Change
DJIA	39,476	38,715	2.0%	37,690	4.7%
S&P 500	5,234	5,117	2.3%	4,770	9.7%
NASDAQ	16,429	15,973	2.9%	15,011	9.4%
Russell 2000	2,072	2,039	1.6%	2,027	2.2%
KBW Bank Indx	101.7	98.1	3.7%	96.0	5.9%
VIX	13.1	14.4	-9.4%	12.5	4.9%
Oil (WTI	$80.63	$81.04	-0.5%	$72.57	11.1%
Prime	8.50	8.50	0.00	8.50	0.00
Effective Fed Funds	5.33	5.33	0.00	5.32	0.01
3m Tbill	5.36	5.37	-0.01	5.33	0.03
2yr UST	4.59	4.73	-0.14	4.25	0.34
10yr UST	4.20	4.31	-0.11	3.88	0.32
2-10yr UST Spread	-39	-42	3	-37	-2
2y AAA Muni/10y UST	62.9%	59.4%	3.5%	58.9%	4.0%
10y AAA Muni/10y UST	59.0%	56.9%	2.1%	58.5%	0.5%
5yr Inflation Rate	2.47	2.44	0.03	2.15	0.32

Week Ahead

- **Monday:** New home sales
- **Tuesday:** Case-Shiller 20-City Home Price Index, Consumer Confidence, Durable goods
- **Wednesday:** No major reports
- **Thursday:** 4Q GDP, UofM Consumer Sent, Pending Home Sales
- **Friday:** PCE

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