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Financial Week Newsletter

Summarized by Smith Shellnut Wilson

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"Storms make the oak grow deeper roots." George Herbert

MARKETS

Macro Recap: This week's economic reports featured the April Consumer Price Index (CPI), which showed a year-over-year disinflation in both the total CPI (down to 3.4% from 3.5%) and core CPI (down to 3.6% from 3.8%). This came after three consecutive months of higher-than-expected CPI readings and other recent reports indicating persistent price pressures, raising concerns about the Federal Reserve maintaining a restrictive stance longer than expected. Market rates dropped significantly in response to the data, and expectations for a rate cut by the FOMC increased.

Before the CPI report, market participants digested the April Producer Price Index (PPI). The headline inflation readings were hotter than anticipated, with total PPI and core PPI both rising 0.5% month-over-month, compared to the expected 0.3% and 0.2%, respectively. However, substantial downward revisions to the previous month's readings resulted in a mixed market reaction rather than a negative one.

In a moderated discussion at the Foreign Bankers' Association's annual meeting, Fed Chair Powell described the data as "quite mixed."

U.S. retail sales were unexpectedly flat in April, a slowdown from the previous month's 0.6% increase. Most economists had anticipated an April sales gain of around 0.4%, but the unchanged result came amid high interest rates and persistent inflation.

Equity Recap: The NASDAQ reached a record high on Tuesday, followed by the S&P 500 and Dow achieving their own record highs the next day, buoyed by new inflation data and a more optimistic outlook for eventual interest rate cuts. On Friday, the Dow closed above the 40,000-point mark for the first time, marking its fifth consecutive positive week.

An index tracking investors' expectations for short-term U.S. stock market volatility turned negative for the year and reached its lowest point in five months. The Cboe Volatility Index has dropped about 38% from its recent high on April 15.

Meanwhile, gold futures surged above the record-high $2,400 per ounce on Friday, a level last seen in mid-April. Year to date, gold has increased nearly 17%, with most of the gains occurring since mid-March.

Bond/Rate Recap: Bond yields fell after the CPI report showed that prices increased less than expected. The yield of the 10-year U.S. Treasury bond closed at 4.42% on Friday, down sharply from 4.69% at the end of April.

INDICES

	May 17 Close	May 13 Open	Weekly Change	Dec 31 2023	YTD Change
DJIA	40,004	39,513	1.2%	37,690	6.1%
S&P 500	5,303	5,223	1.5%	4,770	11.2%
NASDAQ	16,686	16,341	2.1%	15,011	11.2%
Russell 2000	2,096	2,060	1.7%	2,027	3.4%
KBW Bank Indx	107.4	106.1	1.2%	96.0	11.8%
VIX	12.0	12.6	-4.5%	12.5	-3.7%
Oil (WTI	$80.06	$78.26	2.3%	$72.57	10.3%
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	5.39	5.40	-0.01	5.33	0.06
2yr UST	4.82	4.87	-0.04	4.25	0.57
10yr UST	4.42	4.50	-0.08	3.88	0.54
2-10yr UST Spread	-41	-37	-4	-37	-3
2y AAA Muni/10y UST	64.8%	64.2%	0.6%	58.9%	5.9%
10y AAA Muni/10y UST	60.4%	59.0%	1.4%	58.5%	1.9%
5yr Inflation Rate	2.33	2.35	-0.02	2.15	0.17

Week Ahead

- **Monday:** No major reports
- **Tuesday:** No major reports
- **Wednesday:** FOMC (4/30 - 5/1) minutes, Existing home sales
- **Thursday:** Weekly unemployment, New home sales
- **Friday:** UofM consumer sent, Durable goods orders

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