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Financial Week Newsletter

Summarized by Smith Shellnut Wilson

December 23, 2024

"The most damaging phrase in the language is 'We've always done it this way.'" Grace Hopper

MARKETS

Macro Recap: The major U.S. stock indexes dropped by about 3% to 4%, and bond yields surged after the U.S. Federal Reserve indicated on Wednesday afternoon that it plans to cut interest rates less than previously expected in 2025. The Fed approved a widely anticipated quarter-point rate cut, but its forecast for two additional cuts next year was a step back from earlier expectations of around four cuts.

The Summary of Economic Projections revealed that the median estimates for PCE inflation and core PCE inflation were raised for 2024 and 2025, while the unemployment estimate was lowered for the same years. Additionally, the median estimate for the 2025 fed funds rate was increased to 3.9% from 3.4%, suggesting only a 50-basis point reduction in 2025 compared to the 100-basis point reduction projected in September.

Following the Fed's more hawkish outlook, the value of the U.S. dollar surged, rising more than 1% against other major currencies to its highest level since November 2022.

The U.S. economy's third-quarter growth was stronger than initially estimated, with the government reporting on Thursday that GDP grew at an annual rate of 3.1%, up from an earlier estimate of 2.8% and the second quarter's 3.0% growth. GDP growth has now exceeded 2.0% in eight of the last nine quarters.

Equity Recap: Stocks experienced significant volatility, with major U.S. indexes dropping around 2% overall during the week, highlighted by a sharp decline on Wednesday. However, a partial recovery rally on Friday mitigated much of the earlier losses.

The Dow's 2.6% drop on Wednesday marked its tenth consecutive negative trading day—the longest streak since an 11-day decline in 1974. Over this recent skid, the Dow fell 6.0%. The streak ended on Thursday with a slight rise in the index.

Bond/Rate Recap: For the second consecutive week, bond prices fell, driving yields higher. The yield on the 10-year U.S. Treasury note rose to its highest level in nearly seven months, peaking at 4.59% on Thursday before easing to around 4.53% by Friday's close. The 2-year yield increased by seven basis points.

Week Ahead: The final full week of 2024 will have a light schedule for economic reports. However, a consumer confidence report is expected today, with new home sales and durable goods reports coming out on Tuesday.

INDICES

	Dec 20 Close	Dec 16 Open	Weekly Change	Dec 31 2023	YTD Change
DJIA	42,840	43,828	-2.3%	37,690	13.7%
S&P 500	5,931	6,051	-2.0%	4,770	24.3%
NASDAQ	19,573	19,927	-1.8%	15,011	30.4%
Russell 2000	2,242	2,347	-4.5%	2,027	10.6%
KBW Bank Indx	127.2	131.8	-3.4%	96.0	32.5%
VIX	19.0	13.8	37.6%	12.5	52.6%
Oil (WTI)	$69.15	$71.29	-3.0%	$72.57	-4.7%
Gold	$2,619	$2,648	-1.1%	$1,973	32.7%
Prime	7.50	7.75	-0.25	8.50	-1.00
Effective Fed Funds	4.33	4.58	-0.25	5.32	-0.99
3m Tbill	4.32	4.32	0.00	5.33	-1.01
2yr UST	4.32	4.24	0.08	4.25	0.07
10yr UST	4.55	4.40	0.15	3.88	0.67
2-10yr UST Spread	22	15	7	-37	59
2y AAA Muni/10y UST	65.4%	62.0%	3.4%	58.9%	6.5%
10y AAA Muni/10y UST	69.3%	66.4%	2.9%	58.5%	10.8%
5yr Inflation Rate	2.35	2.42	-0.07	2.15	0.20

Week Ahead

- **Monday:** Consumer confidence
- **Tuesday:** New home sales, Durable goods
- **Wednesday:** Christmas - markets closed
- **Thursday:** Weekly unemployment
- **Friday:** No major reports

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