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Financial Week Newsletter

Summarized by Smith Shellnut Wilson

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"I think all great innovations are built on rejections." Louise Nevelson

MARKETS

Macro Recap: The market had a hectic week with significant news and earnings reports. Participants had to reassess their expectations for rate cuts considering strong economic data and the FOMC's stance on Wednesday. Despite the unanimous FOMC agreement to keep the Fed funds rate target range at 5.25-5.50%, the market expected a more dovish shift. However, the directive clarified that the Committee wouldn't contemplate reducing the target range until it gains greater confidence in inflation moving sustainably toward 2 percent.

Fed Chair Powell reiterated this stance in the subsequent press conference, expressing skepticism about a rate cut in March, stating, "I don't think it is likely that the Committee will reach a level of confidence by the time of the March meeting to identify March as the time to do that (cut rates), but that is to be seen." This led to a sell-off across various assets on Wednesday.

Following the FOMC decision, the market encountered a much stronger-than-expected January Employment Report on Friday. It featured a significant upside surprise in payroll growth, accompanied by a larger-than-expected increase in average hourly earnings. Consequently, the fed funds futures market adjusted the probability of a 25-basis points rate cut at the March FOMC meeting to 20.5% (down from 38.0% the previous day and 47.6% a week ago). Additionally, the probability of a 25-basis points rate cut at the May FOMC meeting decreased to 74% (from 93.8% the previous day).

The price of oil fell more than 7% for the week, reversing most of its year-to-date gain. U.S. crude was trading at around $72 per barrel on Friday, down from a recent peak of more than $90 in September.

Equity Recap: After a decline on Wednesday following the FOMC meeting, the major stock indexes rebounded to secure gains on both Thursday and Friday. The S&P 500, the Dow, and the NASDAQ all saw increases of more than 1% overall. Notably, for the S&P 500, this marked the 13th positive outcome in the past 14 weeks.

Bond/Rate Recap: The movement in bond prices was influenced in part by a reconsideration of rate cuts and the Treasury Department's borrowing estimates for the first quarter. The Treasury Department now intends to borrow $760 billion in Q1, a figure $55 billion lower than the October forecast, attributed to increased net fiscal flows and a higher cash balance at the quarter's outset. Projections for Q2 borrowing stand at $202 billion.

Reflecting these developments, the yield on the 2-year note decreased by two basis points to 4.38%, while the 10-year note yield experienced a 13-basis-point drop to 4.03%.

INDICES

	Feb 2 Close	Jan 29 Open	Weekly, %/BP Chg	Dec-23	YTD Change
DJIA	38,654	38,109	1.4%	37,690	2.6%
S&P 500	4,959	4,891	1.4%	4,770	4.0%
NASDAQ	15,629	15,455	1.1%	15,011	4.1%
Russell 2000	1,963	1,978	-0.8%	2,027	-3.2%
KBW Bank Indx	94.7	96.4	-1.7%	96.0	-1.3%
VIX	14.2	13.9	2.0%	12.5	14.1%
Oil (WTI	$72.06	$77.59	-7.1%	$72.57	-0.7%
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	5.34	0.03	5.33	0.04
2yr UST	4.42	4.33	0.09	4.25	0.17
10yr UST	4.12	4.10	0.01	3.88	0.24
2-10yr UST Spread	-31	-23	-8	-37	6
2y AAA Muni/10y UST	61.6%	65.2%	-3.6%	58.9%	2.8%
10y AAA Muni/10y UST	60.1%	61.5%	-1.5%	58.5%	1.6%
5yr Inflation Rate	2.26	2.30	-0.04	2.15	0.10

Week Ahead

- **Monday:** ISM nonmanufacturing index
- **Tuesday:** No major reports
- **Wednesday:** Consumer credit, Trade balance
- **Thursday:** Wholesale inventories, Weekly unemployment
- **Friday:** No major reportsf

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