SMITH SHELLNUT WILSON
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Financial Week Newsletter

As summarized by Smith Shellnut Wilson

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"The human being is born with an incurable capacity for making the best of things." Helen Keller

MARKETS

Macro Recap: Throughout the week economic data largely aligned with the soft landing narrative. The November Consumer Price Index met expectations, with core CPI showing some resilience. The November Producer Price Index indicated welcome disinflation. Retail sales rebounded in November from a decline in October, and weekly jobless claims remained below recession levels.

Stocks experienced a surge after the market received news that the FOMC unanimously voted to maintain the target range for the fed funds rate at 5.25-5.50%. This decision was accompanied by an updated Summary of Economic Projections, revealing an improved growth outlook for 2023, a lowered inflation outlook for 2023 and 2024, and a median estimate of three rate cuts in 2024 compared to the previous estimate of two rate cuts. During his press conference, Fed Chair Powell acknowledged that the FOMC discussed the timing of scaling back its policy restraint. However, New York Fed President Williams (FOMC voter) contradicted Powell's remarks in an interview, stating that the Fed isn't currently discussing rate cuts, and it's premature to consider the timing of such cuts. Meanwhile, Atlanta Fed President Bostic (2024 FOMC voter) told Reuters that he expects two rate cuts in 2024, starting in the second half of the year. The fed funds futures market, which initially priced in two rate cuts for 2024 ahead of the FOMC meeting, is now forecasting six rate cuts for 2024, with the first cut anticipated in March.

Equity Recap: The major U.S. stock indexes saw an almost 3% increase, marking their seventh consecutive positive week, driven primarily by the anticipation of imminent interest-rate cuts. The Dow reached a record high, surpassing its previous peak established on January 4, 2022. While the S&P 500 hovered around 1% below its all-time high, the NASDAQ remained approximately 8% away from its historical pinnacle. This seven-week streak of gains has propelled the NASDAQ up by nearly 18% since its recent low in late October, while the S&P 500 and the Dow have both experienced approximately 15% growth. Following Wednesday's U.S. Federal Reserve meeting, small-cap stocks surged, leading to a nearly 6% weekly gain for the Russell 2000 Index, a small-cap benchmark. Although the Russell 2000 trails its large-cap counterparts year-to-date, it has surged over 21% since its recent low on October 27.

Bonds/Rates Recap: The Treasury market experienced a robust rally in reaction to the Federal Reserve's dovish shift. The yield on the 2-year Treasury note declined by 28 basis points to 4.46%, while the yield on the 10-year U.S. Treasury bond fell below 4.00% on Thursday, marking the first time since late July. The drop in the 10-year yield provided additional support for equities throughout the week. The 30-year Treasury yield also decreased, remaining slightly above the 4.00% threshold on Friday.

INDICES

	Dec 15 Close	Dec 11 Open	Weekly, %/BP Chg	Dec-22	YTD Change
DJIA	37,305	36,248	2.9%	33,147	12.5%
S&P 500	4,719	4,604	2.5%	3,840	22.9%
NASDAQ	14,814	14,404	2.8%	10,466	41.5%
Russell 2000	1,985	1,881	5.5%	1,761	12.7%
KBW Bank Indx	95.8	88.6	8.1%	100.9	-5.0%
VIX	12.5	12.4	1.4%	21.7	-42.2%
Oil (WTI	$73.12	$71.50	2.3%	$80.26	-8.9%
Prime	8.50	8.50	0.00	7.50	1.00
BTFP Rate	4.97	5.10	-0.13	4.50	0.47
3m Tbill	5.38	5.37	0.01	4.34	1.04
2yr UST	4.42	4.73	-0.30	4.43	-0.01
10yr UST	3.93	4.24	-0.31	3.87	0.06
2-10yr UST Spread	-49	-48	-1	-56	7
2y AAA Muni/10y UST	57.2%	59.5%	-2.3%	60.4%	-3.2%
10y AAA Muni/10y UST	59.8%	61.4%	-1.6%	68.1%	-8.4%
5yr Inflation Rate	2.20	2.15	0.05	2.38	-0.18

WEEK AHEAD

Monday	Housing market index
Tuesday	Housing starts
Wednesday	Existing home sales
Thursday	3Q GDP (third estimate), Leading economic index
Friday	PCE, UofM consumer sent., New home sales

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