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Financial Week Newsletter

Summarized by Smith Shellnut Wilson

August 12, 2024

"The more we know, the more we realize there is to know." Dr Jennifer Anne Doudna

MARKETS

Macro Recap: The week began on Monday with uncertainty surrounding the unwinding of the yen carry trade, as the yen continued to strengthen rapidly against the dollar. By Tuesday, the situation had calmed, and the Nikkei surged over 10% as the yen weakened against the dollar. Despite this, the market remained cautious throughout the week, wary that the unwinding of carry trades could resume, given how long Japan had kept rates at or near zero.

In addition to concerns about the carry trade, the market was also uneasy about the possibility of the U.S. economy slowing more quickly than anticipated. There were worries that the Federal Reserve might have made a policy mistake by keeping the target range for the Fed funds rate unchanged at 5.25-5.50%.

These concerns kept the market in check, but by the end of the week, signs emerged that recession fears were starting to ease. The Atlanta Fed's GDPNow model estimate for real GDP growth in the third quarter increased to 2.9%, up from 2.5% on August 1.

A positive weekly jobless claims report, showing a decrease of 17,000 to 233,000 initial claims, further supported the idea that recession fears were overstated. Later in the week, equities rose as concerns about a recession diminished.

Equity Recap: Markets opened with a continuation of the global sell-off that began last week, driven by concerns about U.S. economic growth following last Friday's jobs report. Japan's Nikkei dropped 12% on Monday, sparking a significant sell-off in U.S. equities. This downturn brought the S&P 500 close to correction territory.

Despite the heightened volatility, the major indices ended the week with only slight changes from the previous Friday. The S&P 500 edged slightly lower, the Nasdaq Composite fell by 0.2%, the Dow Jones Industrial Average dipped 0.6%, and the Russell 2000 underperformed, dropping 1.4%.

Bond/Rate Recap: The 10-year note yield increased by 15 basis points to 3.94%, while the 2-year note yield surged 18 basis points to 4.05%. This week's movement further tightened the 2s10s spread, compressing it by three basis points to -11 basis points. However, year-to-date, the spread remains flatter, having flattened from -37 basis points to -11 basis points.

Week Ahead: This week is packed with market-moving reports on inflation and economic growth, including retail sales, PPI, CPI, manufacturing, and industrial production data.

INDICES

	Aug 9 Close	Aug 5 Open	Weekly Change	Dec 31 2023	YTD Change
DJIA	39,498	39,737	-0.6%	37,690	4.8%
S&P 500	5,344	5,347	0.0%	4,770	12.0%
NASDAQ	16,745	16,776	-0.2%	15,011	11.6%
Russell 2000	2,081	2,109	-1.3%	2,027	2.7%
KBW Bank Indx	106.6	106.4	0.2%	96.0	11.0%
VIX	20.4	23.4	-12.9%	12.5	63.6%
Oil (WTI	$76.84	$73.53	4.5%	$72.57	5.9%
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	5.21	5.14	0.06	5.33	-0.13
2yr UST	4.05	3.86	0.20	4.25	-0.20
10yr UST	3.94	3.78	0.16	3.88	0.06
2-10yr UST Spread	-12	-8	-4	-37	26
2y AAA Muni/10y UST	66.5%	68.8%	-2.3%	58.9%	7.7%
10y AAA Muni/10y UST	67.3%	68.3%	-1.1%	58.5%	8.8%
5yr Inflation Rate	1.98	1.96	0.02	2.15	-0.18

Week Ahead

- **Monday:** No major reports
- **Tuesday:** PPI
- **Wednesday:** CPI
- **Thursday:** Retail sales, Weekly unemployment, Industrial production
- **Friday:** Housing starts, UofM consumer sentiment

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