

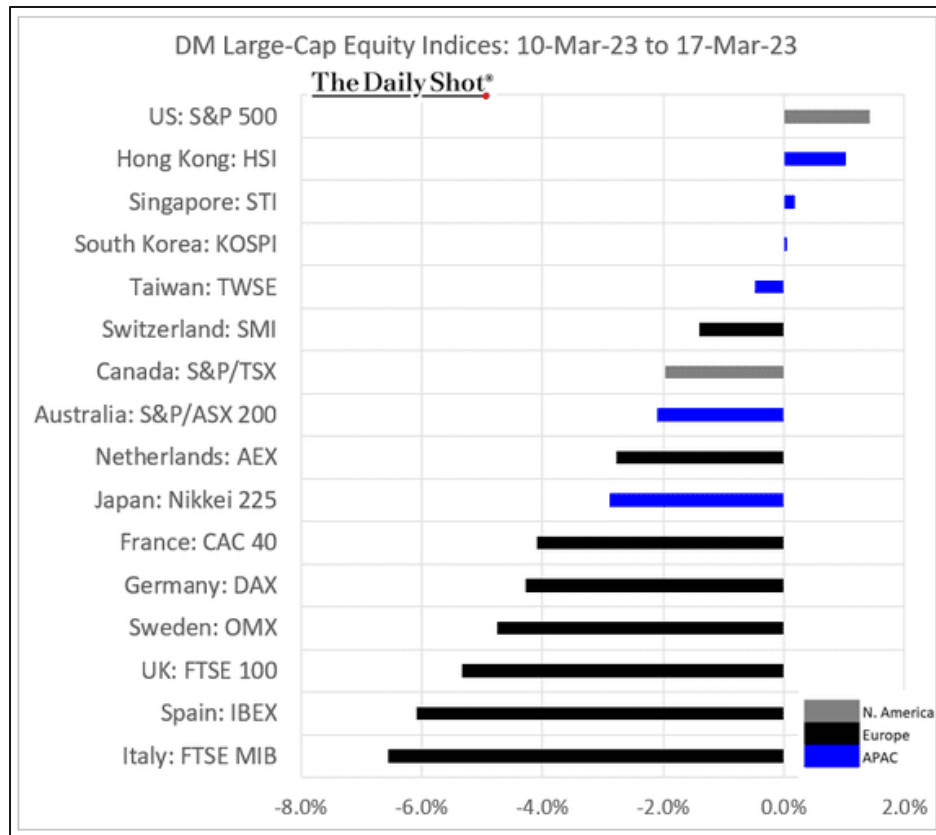
Market Commentary

March 20, 2023

A DEPOSITOR WALKED INTO A BANK...

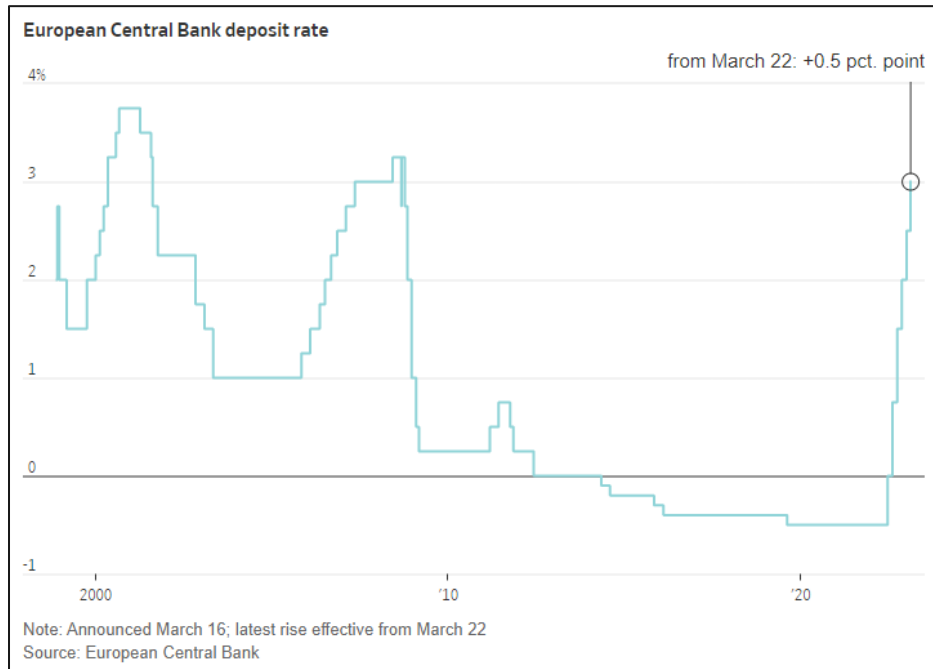
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So there’s this banking crisis in progress, in case you haven’t heard. But as hundreds of articles have been penned on the subject recently, we will just acknowledge it and mostly move on. It is “interesting” to note that the Fed had identified serious weaknesses with Silicon Valley Bank (SVB) beginning back in 2021, according to the [NY Times](#). So, what’s most troubling is not that regulators missed this, but that they couldn’t affect change even after discovering the problems. Further, one less than intuitive outcome from all the excitement last week was that while we created the problem, the U.S. managed to outperform every other major market. Go figure.

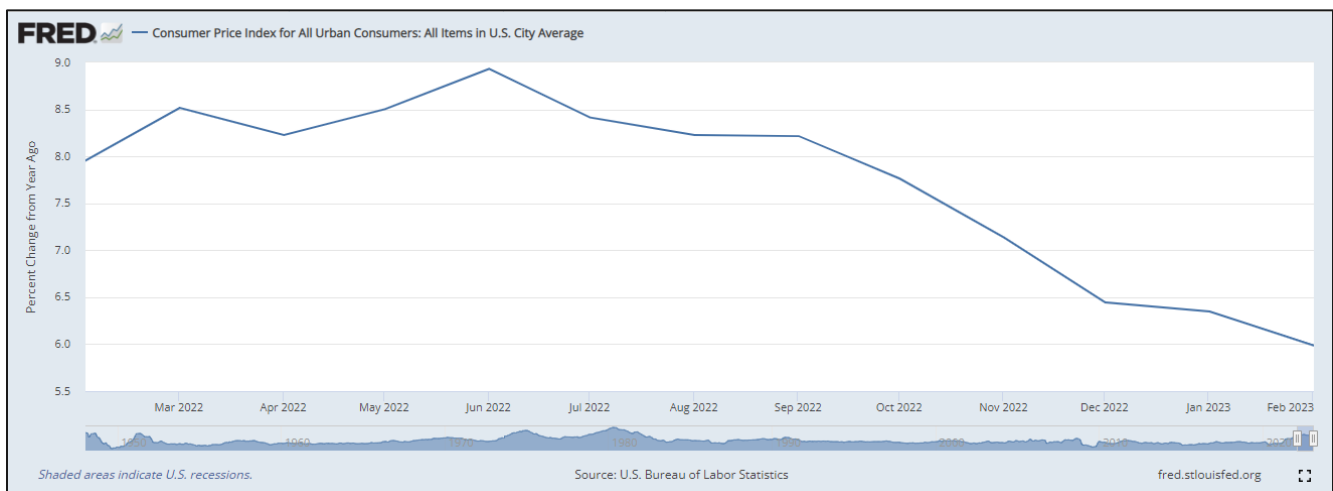


Source: The Daily Shot

With the next Federal Open Market Committee (FOMC) meeting beginning tomorrow (3/21), investors are attempting to divine the course of interest rates, and the popular narrative since SVB imploded has been that the Fed will either raise by a smaller than previously expected 25 basis points or perhaps hold off entirely on raising rates. But not so fast. The rescue plan for Credit Suisse evidently gave the European Central Bank the courage to move ahead as planned, with another 50-basis point hike. And there is a not insignificant chance that the market could react poorly if the FOMC doesn't raise, as that could signal that conditions are even worse than what is widely known. An unenviable position for Powell and the gang to be in for sure.



Working in the Fed's favor, the Consumer Price Index rose by an expected 6% on an annual basis in February, down from 6.4% in the month prior. And the Producer Price Index declined by 0.1% in February, with final demand food and energy prices both moving downward. If you can believe it, "Over 80 percent of the February decline in the index for final demand goods can be attributed to a 36.1-percent drop in prices for chicken eggs." (source: [Bureau of Labor Statistics](#)) So hats off to our fine feathered friends, who clearly put in some overtime in February.



Through the 16th of the month, the winners, a somewhat odd cast of characters, are spot gold (+5.6%), the NASDAQ 100 (+4.5%), and long-term Treasuries (+3.8%). Bonds, in general, have done well due to the precipitous drop in the yield curve, where 2-year yields fell from 5.1% to 3.8% in just seven days, and on the longer end of the curve, 30-year yields declined by a less dramatic 32 basis points over the same time period. Meanwhile, small-cap stocks have been hammered, with the Russell Microcap Index down by 8.7% month-to-date and the S&P 600 and Russell 2000 down around 6.5%. Commodities, in general, are also down in part on a less sanguine outlook for growth out of China and, of course, lingering fears in the U.S. of a recession at some point, which this banking mess may just be helping to come to fruition.

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U.S. Small Cap Equity	S&P 600, Russell 2000		Measures the small-cap segment of the U.S. equity market.
U.S. Large Cap Equity	Nasdaq 100		A stock market index made up of 101 equity securities issued by 100 of the largest non-financial companies listed on the Nasdaq stock exchange.
U.S. Microcap Equity	Russell Microcap		Measures the performance of the microcap growth segment of the U.S. equity market.
Commodities	Bloomberg Commodity		Broadly diversified index that allows investors to track commodity futures through a single, simple measure. The DJ-UBSCISM is composed of futures contracts on physical commodities.
Investment Grade Corporates	Morningstar US Corporate Bond		Measures the performance of fixed-rate, investment-grade USD-denominated corporate bonds with maturities greater than one year.
TIPS	Morningstar US TIPS		Represents inflation-protected securities issued by the U.S. Treasury.
Long-Term Treasuries	Morningstar US 10+ Yr Treasury Bond		Measures the performance of fixed-rate, investment-grade USD-denominated Treasury bonds with maturities greater than ten years.

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