WEEKLY MARKET RECAP | March 20, 2023

Week in Review

Equity Markets:

From the headlines alone, one would think it was a bad week for the markets last week. However, the S&P 500 ended the week positive, up by 1.4%. Q4 earnings season is essentially complete with 498 of the S&P 500 companies having already reported. 68% have positive EPS surprises and 67% have beaten revenue expectations[1], according to data from Refinitiv. So far, earnings declined 3.2% for the quarter, marking the first quarter of negative earnings since the recession during the pandemic.

On Sunday it was announced that UBS would be buying 167-year-old Credit Suisse for just over $3B[2]. Central banks and governments have taken quick action to halt any contagion from the handful of banks that have shown severe weakness. Central banks around the globe have vowed to offer loans to ensure the global economy does not see a liquidity crunch. These actions are aimed to restore confidence in the financial system in hopes of staving off a severe economic slowdown.

Fixed Income Markets:

The bond market saw another weekly rally with the 10-yr Treasury yield dropping by ~0.8%. Amidst the most recent weakness in the equity market, the historical negative correlation from the bond market has been a welcomed sight for investors.

After months of a historical yield curve inversion, the short end of the yield curve has been exceptionally strong. On March 8, the 2-yr Treasury yield was as high as 5.08% and it ended the week at 3.82%. At one point, the yield curve inversion was wider by more than 1%, but has tightened significantly to just 0.4%.

Economic:

The Conference Board's Leading Economic Index fell for the eleventh consecutive month, falling 0.3% in February. March's preliminary University of Michigan Consumer Sentiment Index fell to 63.4, surprising to the downside. The expectation was for a reading of 67. Inflation numbers came in as expected with Core CPI increasing 6% year-over-year and Core CPI rising 5.5% year-over-year. Inflation remains elevated but it is steadying.

Looking Ahead

Equity Markets:

We are still likely in the early innings of the events surrounding the banking sector. At first glance, all three of the banks showed prior weakness or vulnerability so it does not appear to be an industry-wide issue, but it does warrant attention going forward.

Q1 earnings season has started to garner a lot of attention. As of Friday, S&P Earnings are expected to decline 4.6% according to Refinitiv data. These downside revisions have been swift. On January 1, Q1 earnings were expected to grow by 1.4%. The market environment is not overly positive and long-term investors should remember that the market is a discounting mechanism. Historically, the market has bottomed well before earnings and economic data troughs. This is why developing a long-term investment strategy that aligns with your goals and risk tolerance is imperative for your success as an investor. Having the ability and commitment to look beyond any short-term noise can actually provide opportunities.

Fixed Income Markets:

Despite the weakness in the banking sector, the Fed is still expected to raise rates by 0.25%. The Fed still has to defeat inflation, despite the weakness that has been a result of their fiscal policy actions. We believe this next meeting will be the opportunity to soften their stance and that they are likely to pause going forward. This may not mean they are completely done raising rates, but the recent events have given the Fed a reason to reassess.

If this hike is the last, it further strengthens our rate view. The peak in rates is likely behind us and we should expect a return to normalcy in the bond market (negative correlation to equities). We anticipate the yield curve to continue its flattening trend. If the economy continues to weaken, we believe a return of an upward slope in the yield curve will likely follow. In the near term, volatility is likely to be slightly elevated due to the uncertainty of the environment as a whole, but we believe the 10-yr yield has peaked.

Economic:

The focus will be on the FOMC meeting but there is also a busy week with economic numbers. We will see data on housing with the existing and new home sales and the MBA Mortgage Applications reports. Economic output numbers will come from the Kansas City Manufacturing Index and S&P Global's Manufacturing and Service PMI.

**** *See Important Disclosures on following page*

Sources:

1)LipperAlpha/Refinitiv
https://lipperalpha.refinitiv.com/wp-content/uploads/2023/03/TRPR_82221_689.pdf

2)Reuters
https://www.reuters.com/business/crunch-time-credit-suisse-talks-ubs-seeks-swiss-assurances-2023-03-19/