## Markets Continue to Showcase Their Resiliency

Events through March would again test a market that has continued to demonstrate resilience. While volatile conditions remain, and despite equities' February retreat carrying into mid-March, the major indices ended the first quarter of 2023 up.

If one were to look solely at the headlines, this may have come as a surprise. In the days before the Ides of March, the failure of Silicon Valley Bank for lack of liquidity stoked concerns of panic-induced bank runs and a bank-collapse contagion. Quick action by federal authorities and industry actors to protect depositors helped contain those fears.

Meanwhile, the Federal Reserve (Fed) raised the federal funds rate again – though by only a quarter of a percentage point – in continuation of its strategy to combat persistently high inflation. The decision seemed to ease tensions by neither causing alarm with a sudden change of direction nor appearing indifferent to events as they unfolded, especially as some pundits claimed higher interest rates contributed to Silicon Valley Bank's failure.

"Federal Reserve Chairman Jerome Powell deftly threaded the needle between continuing the fight against inflation and showing support for the banking system," said Raymond James Chief Investment Officer Larry Adam. "At the same time, the Fed and other regulators stepped in and did what they were supposed to do: prevent the spread of panic in the banking system. Silicon Valley Bank has been bought by First Citizens BancShares and the market seems comfortable that any potential banking contagion has been contained."

The long-term impact of these events is yet to be seen. Short term, it's possible lending will tighten, which would, in effect, support the Fed's inflation-fighting strategy by slowing the economy.

Before we dive into other topics here and abroad, let's review this year to date.

| | 12/30/22 Close | 3/31/23 Close* | Change Year to Date | % Gain/Loss Year to Date |
|---|---|---|---|---|
| DJIA | 33,147.25 | 33,274.15 | +126.90 | +0.38% |
| NASDAQ | 10,466.48 | 12,221.91 | +1,755.43 | +16.77% |
| S&P 500 | 3,839.50 | 4,109.31 | +269.81 | +7.03% |
| MSCI EAFE | 1,943.93 | 2,084.49 | +140.56 | +7.23% |
| Russell 2000 | 1,761.25 | 1,802.48 | +41.23 | +2.34% |

| | | | | |
|---|---|---|---|---|
| Bloomberg Aggregate Bond | 2,048.73 | 2,099.64 | +50.91 | +2.48% |

*Performance reflects index values as of market close on March 31, 2023. MSCI EAFE and Bloomberg Aggregate Bond reflect March 30 closing values.

**The Fed makes moves to pause rate hikes …**

The target federal funds rate is now set at 4.75% to 5% and the Fed is expected to make another 25-basis-point hike in May. However, the deliberative body has changed its language, referring no longer to its "ongoing increases" but saying "some additional policy firming may be appropriate." This suggests the rate-setting committee may be more sensitive to incoming data pertaining to inflation, the economy and market behavior. As a result, the market will be highly sensitive to the incoming data flow.

**… but bond markets may be getting ahead of themselves**

Banking system turmoil was reflected in the bond market as investors saw big rate swings – the two-year Treasury traded in a range between 3.77% and 5.07% and the 10-year between 3.68% and 4.06%. By the end of the month, confidence had seemingly returned, but fed funds futures are trading as if the Fed will reverse direction and cut interest rates by July. The Fed itself has given no such indication.

**The Swiss connection**

The long troubles of Credit Suisse – considered a globally important institution – came to a head in March, leading Swiss authorities to swiftly fold the bank into UBS. Depositors are protected, but uncertainty regarding $17 billion in the bank's now seemingly worthless subordinate bonds known as CoCos likely contributed to pronounced volatility across regional bond markets.

**TikTok at center stage**

U.S. legislators on both sides of the aisle remain skeptical of TikTok's willingness or ability to wall off its U.S. business from its Chinese owners, though an outright ban seems unlikely in the near term. As a consequence of these concerns, we may see increased discussion about digital privacy, content moderation, and the power of government to regulate technology platforms.

**Russia to continue oil production cut**

Oil prices fell to 15-month lows toward the end of March, having erased all of the increase from the early months of Russia's war in Ukraine. Russia this past month announced an extension of its production cut of 500,000 barrels per day through June. This action will by definition create a tighter supply environment, though oil prices are responding much more to demand-related headlines. In the meantime, the year-to-date cooling of oil prices is helping to bring down inflation numbers.

**The bottom line**

Despite the challenges, the events of March seemed to reflect a fundamental strong economy and economic system:

- Domestic and foreign financial authorities acted quickly to keep a potentially dire problem in check.
- Consumer demand remains strong, supported by employment growth.

- Though it remains high, the inflation rate continues to slow.
- The U.S. housing market shows signs of stabilization as mortgage interest rates have come down somewhat – though that may reverse in light of the banking crisis.

The scale of the complications wrought by COVID-19 and governments' response to it is hard to oversell. We've known the return to a normal economy would be bumpy with confusing data along the way. Investor uncertainty is high and swings in sentiment are bound to occur. There will be excited periods during which stocks rally and disappointed periods when they pull back.

Through this, we will continue to put your best interests first by following our disciplined, measured approach to long-term investing in service of your greater goals. Thank you for your continued trust in our advice. If you have any questions about this report, or your accounts, please reach out at your earliest convenience.