Beacon Trust
INNOVATING WEALTH STRATEGY

March 27, 2023

Beacon Weekly Investment Insights

Last week was no exception to the volatility we have been experiencing in both equity and fixed income markets as of late, with ongoing concerns/uncertainty around the banking sector and the broader economy front and center. With that said, both the S&P 500 and Nasdaq logged their 2nd positive week in a row amidst the volatility, with the S&P 500 ending the week up 1.3%, the Nasdaq up 1.6%, and the Dow up 1.1%. Oil prices stabilized somewhat after a downward descent in recent weeks as concerns over a slowdown continue to mount, with WTI Crude closing the week up 3.7% to $69.27/barrel. We saw significant moves in yields as markets digested comments from the latest Fed meeting, and continue to wrestle with increased prospects for a slowdown amidst the recent stresses in the banking sector. The 10-year treasury yield moved down slightly from 3.39% to 3.37% to close the week, however had gone up as high as 3.64% during the week before retreating back down.

Volatility in both domestic and international banks continued, with Deutsche Bank getting caught up in concerns sparked by UBS's acquisition of Credit Suisse (which we discussed in our piece last week). The cost of credit default swaps for Deutsche Bank, which function as insurance against the company's debt defaulting, rose drastically last Friday, and shares of the company traded down as much as 15% intraday. Hedge funds seeking to profit from the current turmoil in the industry likely exacerbated the volatility. Ultimately, shares of Deutsche Bank recovered meaningfully into the close, with German Chancellor Olaf Scholz publicly backing the company saying that Deutsche is a "very profitable bank" and there was no need to worry about the company's future, and ECB President Christine Lagarde telling EU leaders that the euro-area banking sector is strong.

U.S. regional banks also rallied back from negative territory on Friday, with reports that Treasury Secretary Janet Yellen called a previously unscheduled meeting with members of the Financial Stability Oversight Council in an effort to calm concerns over the banking sector. Secretary Yellen testified in front of Congress last week, initially adding to volatility with her testimony before the Senate Appropriations subcommittee last Wednesday, the same day as Fed chair Jay Powell spoke at the press conference for the March FOMC meeting. Secretary Yellen made a statement that seemed to be at odds with what Fed Chair Jay Powell was communicating in the press conference for the most recent Fed meeting and with what markets were expecting, when she stated that she has not considered or discussed blanket insurance for U.S. bank deposits. It's important to note that Secretary Yellen later clarified in additional testimony before the House Financial Services and General Government Appropriations subcommittee that the Treasury stands ready to provide further support if necessary. Both Secretary Yellen and Chair Powell, however, discussed the potential need for changes to federal regulation and oversight to prevent future runs on banks.

News broke over the weekend that First Citizens BancShares would be acquiring Silicon Valley Bank. In so doing, First Citizens will be buying roughly $72 billion in loans at a discount of $16.5 billion, and will also be acquiring deposits of $56 billion. The news helped to assuage fears in the banking sector somewhat, lifting shares of regional banks and the broader banking sector early on Monday.

As expected, the Fed announced an additional 0.25% interest rate increase last Wednesday. In its policy statement, the Fed did away with the language that "ongoing rate increases" would be necessary to combat inflation, instead stating that "the committee anticipates that some additional policy firming may be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2% over time." Despite the change in language, Chair Powell pushed back against the notion that there would be rate cuts later this year, which the market is pricing in. There continues to be a disconnect between what the Fed is saying and what the market is saying, with markets still pricing in a rate cut as soon as July.

In the midst of the recent volatility, we believe that investing in well-diversified portfolios with exposure to high quality businesses that have the ability to navigate the current landscape and continue to be successful over the long-term, alongside maintaining sufficient liquidity to meet client needs, continues to the best way to navigate these uncertain markets. For example, Regeneron, which has superior financial metrics relative to the broader S&P 500, recently announced positive results from a Phase III study of their drug Dupixent (currently treats asthma and dermatitis) in the treatment of COPD (chronic obstructive pulmonary disease) in adults aged 40 to 80. Participants in the trial achieved a 30% reduction in moderate or severe acute COPD exacerbations, and showed meaningfully improved lung function. COPD is currently the 3rd leading cause of death worldwide and has had no new treatments approved in more than a decade. If approved, the label expansion for Dupixent in treating COPD could lead to billions more in peak annual sales for the drug than initially anticipated. Shares of the company traded up just shy of 10% on the week off of the news. It is the strength in the fundamentals of Regeneron's business and growth drivers such as this, that will dictate the success of the company and the trajectory of its share price over the long-term, despite recent events causing volatility in the short-term.

Economic data on tap for this week includes the S&P Case-Shiller home price index and consumer confidence data due out on Tuesday, pending home sales data set to be released on Wednesday, and the 2nd revision to GDP due out on Thursday. Importantly, Core PCE (personal consumption expenditures) index data, which is the Fed's preferred measure of inflation, is due out on Friday.

Market Scorecard:	**3/24/2023**	**YTD Price Change**
Dow Jones Industrial Average	32,237.53	-2.74%
S&P 500 Index	3,970.99	3.42%
NASDAQ Composite	11,823.96	12.97%
Russell 1000 Growth Index	2,383.65	10.45%
Russell 1000 Value Index	1,444.86	-3.49%
Russell 2000 Small Cap Index	1,734.92	-1.49%
MSCI EAFE Index	2,017.13	3.77%
US 10 Year Treasury Yield	3.37%	-51 basis points
WTI Crude Oil	$69.26	(13.71)%
Gold $/Oz.	$1,983.80	8.63%

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