

## Beacon Weekly Investment Insights

The S&P 500 increased 1.4% last week, masking continued turmoil beneath the surface. The regional banking crisis set off more than a week ago with the FDIC takeover of Silicon Valley Bank (SVB), Signature Bank, and the sponsored bailout of First Republic Bank, went global. The latest target of the bank run frenzy? The once venerable, 167-year-old Credit Suisse (CS). The Swiss bank has apparently agreed to be sold in a “shotgun wedding” to its larger Swiss rival, UBS. The reported price tag of \$3.2 billion, down more than 90% from CS’s all-time high, is reminiscent of J.P. Morgan’s acquisition of Bear Stearns for only \$2 a share during the early stages of the Great Recession.

As stated in our market review last week, we do not believe the current sequence of events is going to be a repeat of what happened in 2008-2009. We cited increased regulations due to the Dodd-Frank Act of 2010 and stronger financial positions for most banks. In fact, the biggest banks in the U.S. have seen [inflows](#), as skittish depositors move money from what they believe to be the weaker banks into the stronger ones. However, fear is contagious and the main factor that may stop the contagion is a sustained period of relative stability. Some financial analysts, such as Bill Ackman, have proposed a temporary [blanket guarantee](#) of *all* bank deposits in order to quell the fear of bank runs.

The term “flight to quality” manifested itself in a few ways last week. Yes, traditional safe havens, Gold (+6.5%) and long-term U.S. Treasuries (TLT, + 2.9%), increased noticeably last week. However, the Russell 1000 Growth Index surged last week (+4.1%) while the Russell 1000 Value Index (-1.7%) fell. Money flowed into large cap tech stocks, such as Microsoft (+12.4% last week), since some investors believe them to be relatively immune to the crisis. Besides the drop in regional bank stocks (KBWR, -9.3%), Oil plunged 13.5% last week since some investors are coming to the conclusion that the banking crisis may push what has been a sluggish economy into an outright recession, which tends to destroy demand for most commodities.

The main economic event this week will occur on Wednesday when the Federal Open Market Committee (FOMC) releases the statement from its forthcoming March 21<sup>st</sup>-22<sup>nd</sup> meeting. Prior to the banking crisis, futures markets were pricing in a 0.5% increase in rates. Currently, the market is pricing in roughly a 60% chance of a 0.25% increase in interest rates, with a 40% chance of no change in rates. The press conference, which follows immediately after the statement is released, will be one of the most anticipated in years. Not only is there the chance that the Fed will pause its year plus long rate hike campaign, but Fed Chair, Jay Powell, may also give some further insight on the regional banking crisis. The Fed has bank examiners periodically visit every national bank in the country and hence is privy to data not available to the public.

There will be two economic reports released this week tied to the real estate market. The Existing Home Sales Report will be released on Tuesday and the New Home Sales Report will be released on Thursday. Together, they may paint a picture of the impact of higher interest rates on the national housing market. S&P will release its Purchasing Manager Indexes (PMI) on Friday. The Manufacturing and Services PMI Indexes are forward looking measures that provide further data points on the likelihood of the U.S. economy falling into a recession. Last week the Leading Economic Index (LEI) report was released, which declined for the eleventh consecutive month, still pointing the odds to an impending recession.

There is a non-market related event that may unfold this week that we would be remiss to not mention. Former President Donald Trump expects to be [arrested](#) on Tuesday and he has encouraged his followers to protest. While remaining neutral on the political implications of such an event, we believe it may further exacerbate the recent bout of market volatility.

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| <b>Market Scorecard:</b>     | <b>3/17/2023</b> | <b>YTD Price Change</b> |
|------------------------------|------------------|-------------------------|
| Dow Jones Industrial Average | 31,861.98        | -3.88%                  |
| S&P 500 Index                | 3,916.64         | 2.01%                   |
| NASDAQ Composite             | 11,630.51        | 11.12%                  |
| Russell 1000 Growth Index    | 2,345.39         | 8.67%                   |
| Russell 1000 Value Index     | 1,430.99         | -4.42%                  |
| Russell 2000 Small Cap Index | 1,725.89         | -2.01%                  |
| MSCI EAFE Index              | 1,986.73         | 2.20%                   |
| US 10 Year Treasury Yield    | 3.395%           | -48 basis points        |
| WTI Crude Oil                | \$66.33          | (17.61)%                |
| Gold \$/Oz.                  | \$1,993.70       | 8.94%                   |



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