Beacon Trust
INNOVATING WEALTH STRATEGY

March 13, 2023

Beacon Weekly Investment Insights

SVB Financial Group (SVB), recently the 18th largest bank in the country, was closed by regulators last week, acting as the main catalyst for the S&P 500's weekly drop of 4.6%. The S&P 500 remains in modestly positive (+0.6%) territory for the calendar year, while the 30 stock Dow Jones Industrial Average has moved into the red (-3.7%). Over the weekend, the Federal Reserve also closed Signature Bank (SB). SVB's and SB's collapse follows on the heels of the announced liquidation of another California based bank, Silvergate Capital (SI).

Despite the negative headlines emanating from the financial media and the likelihood of continued volatility in asset prices, we do not think the current sequence of events will trigger a repeat of something similar to the banking crisis that set off the Great Recession. Why? In a nutshell, most large American banks are well capitalized after the changes instituted under the Dodd Frank Act of 2010 and SVB's + SB's+ SI's woes are largely due to problems with their idiosyncratic key customer bases – venture capital backed and cryptocurrency firms. Furthermore, the U.S. Treasury and Federal Reserve issued a statement Sunday evening proclaiming that 100% of SVB + SB bank deposits would be available to their customers on Monday.

As equities fell last week, traditional safe haven investments showed their mettle. Over the course of last week, gold increased 0.5% and the benchmark 10 Year U.S. Treasury Note increased more than 2%, as yields fell from roughly 4.0% to 3.7%. The oft used expression "Cash is king" has made a comeback with the yield on ultra-safe and liquid U.S. Treasury Bills approaching 5.0%. An increasing number of investors seem content to remain on the sidelines while the latest round of market volatility runs its course. At Beacon, we do not believe in market timing, but recommend clients keep at least one year of living expenses in safe assets, such as high quality fixed income and cash equivalent investments. Thoughtful diversification across several asset classes remains a pillar of Beacon's risk management process.

In parallel to the SVB and SB news, the other major economic headline occurred on Friday when the latest unemployment report was released. The unemployment rate increased from 3.4% to 3.6%, yet 311,000 net new jobs were created last month. The seemingly paradoxical data may be unraveled by noting the labor force participation rate went up, resulting in more people seeking work. Another element of the unemployment report appeared to cheer the markets on Friday, before it succumbed to the SVB led related selloff. Namely, wages increased 4.6% from a year ago, less than expected, signaling that inflation is continuing to trend in the right direction.

Federal Reserve Chair, Jay Powell, testified before Congress last Tuesday and Wednesday. His comments suggested that the Fed has not yet determined its plans regarding further interest rate hikes at its upcoming March 21-22 meeting. Before the SVB collapse, the futures markets were leaning towards a 50 basis point (bps) rate hike, with a 25bps rise as a relatively small possibility. Fears of contagion from SVB to other banks have moved the odds of a rate hike dramatically. Futures markets are now pricing in the likelihood of a 25bps hike, with a relatively smaller possibility of no change in rates.

The economic calendar is fairly active this week. The highlight may be on Tuesday when the Consumer Price Index (CPI) report will be released. If the number comes in at or below the consensus estimate of 6.1% it may give the Fed reason to slow, and ultimately end, its 1+ year rate hike campaign. The Producer Price Index (PPI), a measure of wholesale inflation will be released on Wednesday. PPI acts as somewhat of leading indicator for the CPI, since inflation for consumers is unlikely to slow dramatically if producers are seeing large increases in their cost(s) of doing business.

The Retail Sales report will also be released on Wednesday, providing another touchpoint concerning how close the economy may be to entering a recession, given that consumer spending accounts for roughly 70% of GDP. The Housing Starts report will be released on Thursday. With the national interest rate on mortgages now in excess of 7%, it will be informative to see if homebuilders think better days lie ahead in the not too distant future. On Friday, the Leading Economic Index (LEI) and the University of Michigan Consumer Sentiment reports will be released. LEI has dropped for 11 consecutive months, suggesting that at least a mild recession is likely in the coming months.

Market Scorecard:	**3/10/2023**	**YTD Price Change**
Dow Jones Industrial Average	31,909.64	-3.73%
S&P 500 Index	3,861.59	0.58%
NASDAQ Composite	11,138.89	6.42%
Russell 1000 Growth Index	2,253.13	4.40%
Russell 1000 Value Index	1,455.77	-2.76%
Russell 2000 Small Cap Index	1,772.70	0.65%
MSCI EAFE Index	2,038.91	4.58%
US 10 Year Treasury Yield	3.695%	-18 basis points
WTI Crude Oil	$76.64	(4.76)%
Gold $/Oz.	$1,871.50	2.33%

Beacon Trust 163 Madison Avenue, Suite 600 | Morristown, NJ 07960 | 973.377.8090 | BeaconTrust.com