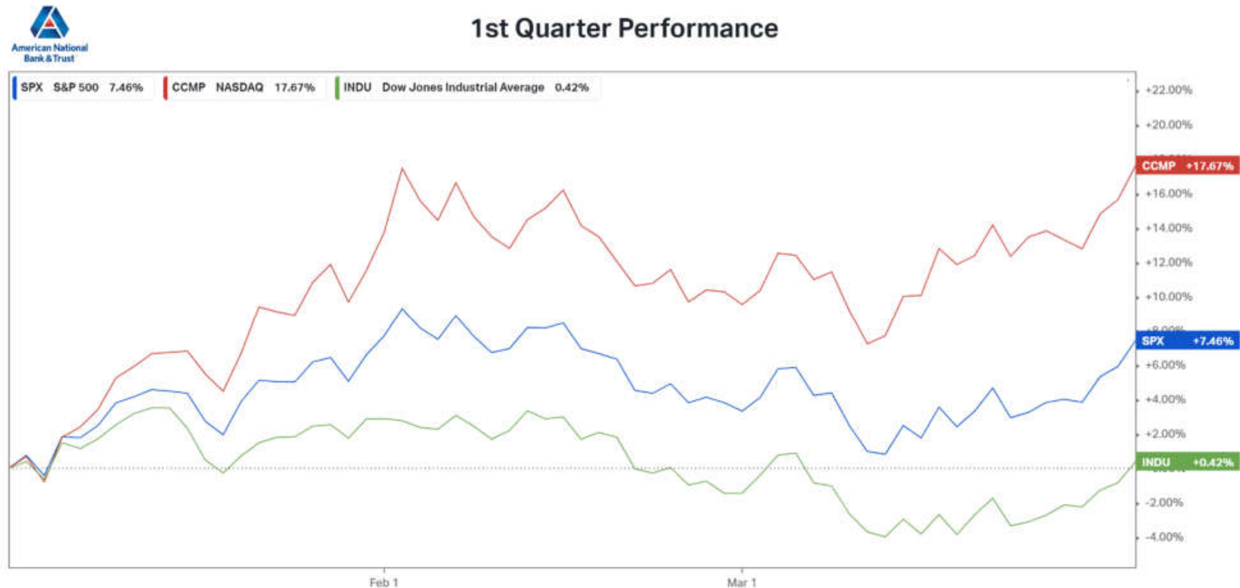
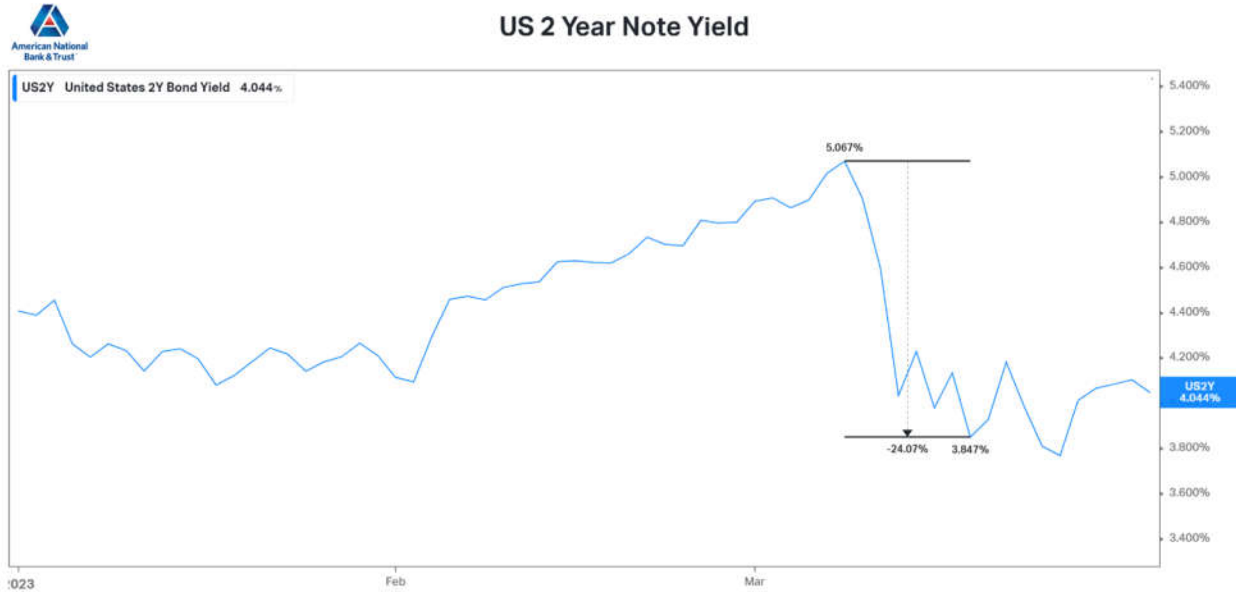
First Quarter/March Update

Through the first quarter the stock market has continued to show resilience. The Dow Jones Industrial is up 0.42% on the quarter, the S&P 500 is up 7.46%. Technology shares have had an even better quarter as, the tech-heavy NASDAQ was up 17.67%. Not every sector made it through the first quarter unscathed, however.

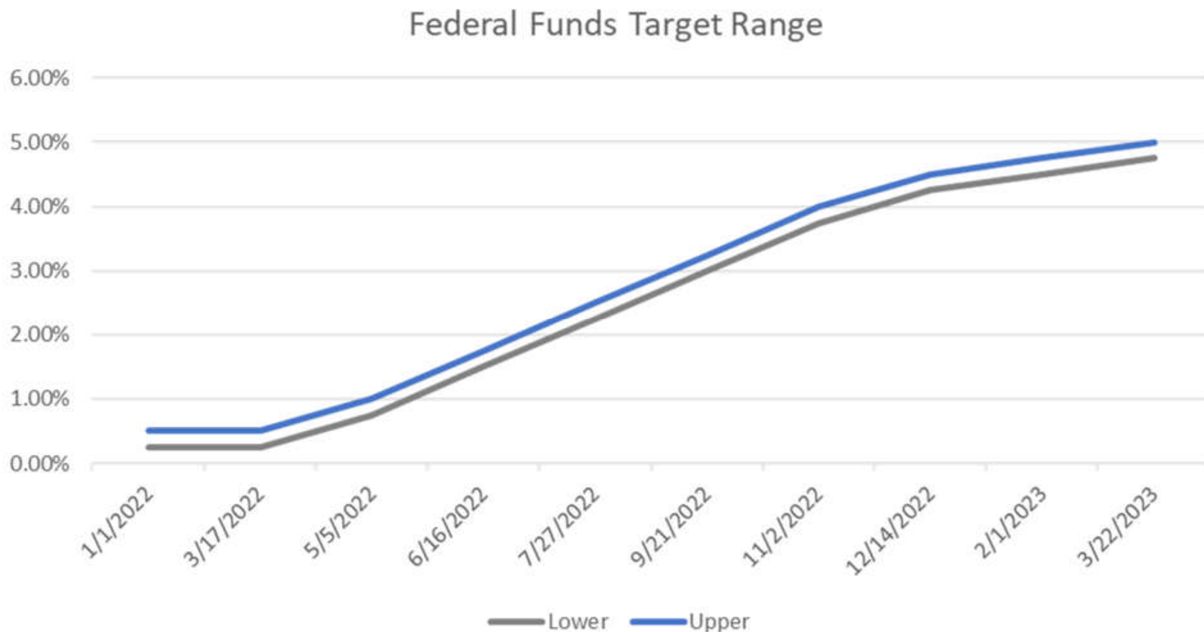


The Financial sector had a major scare. With the 2nd and 3rd largest bank failures by total assets and more banks looking like they were on the verge, it questioned the strength and confidence of the regional banking sector. It seems this fear has been contained, though, as deeper digging highlighted major issues within these banks that failed. These bank failures involved institutions that were not structured like all other central banks. They primarily lent to tech startup companies, and most of their deposits were uninsured. While this would be fine as long as they could keep up with withdrawals, they had another major problem with the bonds they held. They were holding bonds that were purchased at historically low interest rates. As the Federal Open Market Committee (FOMC) raised interest rates throughout the last year, those bonds fell in price. When the banks saw a significant increase in withdrawals, they were forced to take substantial losses on the sale of these bonds, only feeding into the bank-run mentality. This ultimately led to the FDIC stepping in. Finally, the FDIC guaranteed 100% of deposits in both banks. The Bank Term Funding Program was also announced to help contain the fear. This will allow banks to take out a loan using the par value of securities due within 12 months. This banking "crisis" also prompted a change in the yield curve. Since the first of March, yields have

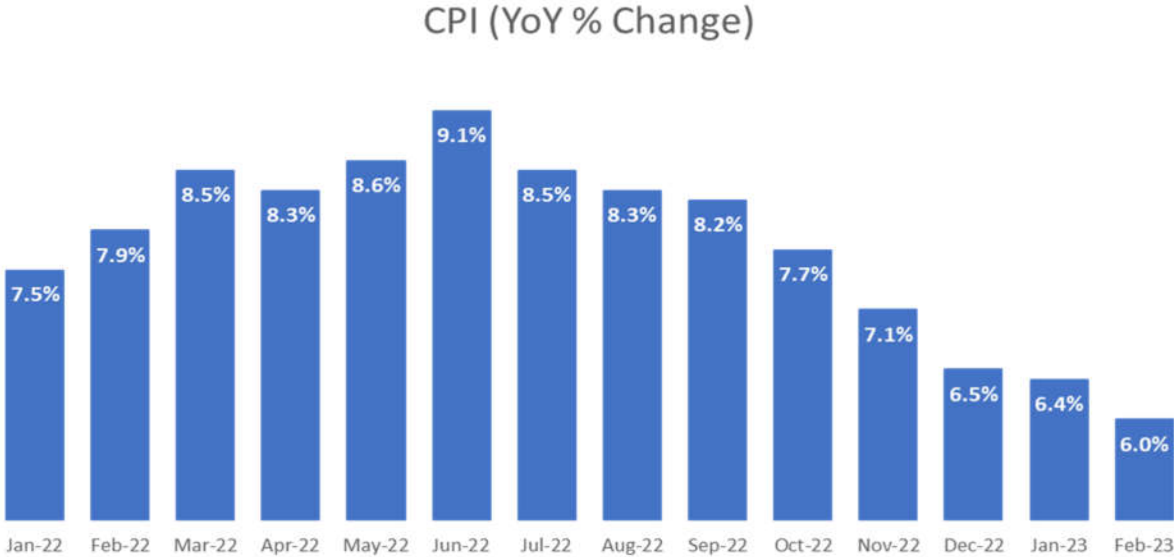
declined significantly. On March 8, the yield for the two-year treasury was 5.067%, the highest rate for the past year. At the end of the first quarter it closed at 4.044%.



Before the bank failures, there were talks of the FOMC raising their interest rate hike back to 0.50% in March. After the bank failures, that idea was tabled. Some concerns that raising rates at all would it only add insult to injury for the struggling banks. Ultimately, the FOMC decided to raise rates by 0.25%, maintaining their current trend, but are discussing a pause in the future.



While inflation is not where it needs to be to stop interest rate increases, it is headed in the right direction. Since CPI peaked in June 2022 at 9.1%, we have seen a steady decrease to the latest reading from February 2023 of 6.0%. There is a lag that trickles through the economy after interest rates are changed. Pausing interest rate increases would allow that trickledown effect to soak in and let the FOMC see if they still have more work to do.



Unemployment data has been holding firm as interest rates have been rising. While a slowdown in the economy should result in higher unemployment numbers, January showed one of the lowest unemployment rates in over 50 years at 3.4%. This is giving hope for a soft landing as the Fed slows the economy.

The first quarter was a much needed relief for both the stock and bond market after an abysmal 2022. Now we look forward, keeping an eye on key economic indicators to see where our economy is trending and specifically watching the FOMC and their actions with interest rates. They will meet again in the beginning of May to discuss what to do with interest rates next.