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Market Rebounds in the Face of Bank Failures

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HIGHLIGHTS

- *Markets delivered gains in a volatile first quarter.*
- *A bank run led to the failure of Silicon Valley Bank, the 16th largest bank in the United States.*

After a rough 2022, the US stock market and First Fiduciary portfolios showed gains in the first quarter of 2023. Positive performance came despite several bank failures in the quarter, including that of Silicon Valley Bank—the country's 16th largest bank. The Treasury, Federal Reserve, and FDIC quickly stepped in to strengthen public confidence in the banking sector and forestall potential bank runs. The calming actions sparked a rally in most risk assets at the end of the quarter, save for the banks themselves. Banks finished the quarter down approximately 18%. At First Fiduciary, we view banks with skepticism while focusing our investments in the sector on the highest quality institutions. Most banks offer a commodity product with very little pricing power. In order to protect client capital, we invest in banks with conservative management teams and superior market positions, and we typically maintain an underweight position relative to the overall market.

Instability in the banking sector did not stop the Federal Reserve from continuing to raise its key interest rate, its ninth consecutive hike of this cycle. In our view, the Fed continuing to tighten even after the demise of Silicon Valley Bank makes it clear that its fight against inflation is not over. Unfortunately, we suspect the only cure for inflation might be a recession, and we expect the Fed to keep hiking until they get one. Despite Fed actions to the contrary, the yield on 10-year US Treasuries declined in the quarter, falling from 3.88% to 3.49%, likely reflecting recession fears.

Looking to the future, we believe trying to time the stock market is an impossible task. Instead, staying invested while maintaining a long-term view is a better path. As such, we invest in companies that have the balance sheet strength and management acumen to outperform weaker peers in rocky economic environments. To quote Warren Buffett, "Time is the friend of the wonderful company." First Fiduciary awaits opportunities to buy more "wonderful companies" when the market gives us chances to do so. Our disciplined commitment to this strategy has delivered gains for our clients over generations.