

MARKET VIEW WEEKLY

Philip Blancato, Chief Market Strategist, Advisor Group



ECONOMIC REVIEW¹

- The Federal Reserve concluded its March meeting with the U.S. central bank approving another quarter-percentage point interest rate increase.
 - The move marks the Fed’s ninth consecutive rate increase over the past year, and brings the benchmark federal funds rate to a range between 4.75 and 5.0%, the highest level since September 2007.
- Importantly, Chairman Jerome Powell signaled that banking-system turmoil could end its rate-rise campaign sooner than seemed likely even just two weeks ago, prior to the prominent failures of SVB and Signature Bank.
 - Chair Powell indicated that officials had considered skipping a rate hike as banking stress intensified but said in the press conference that the central bank will have to wait and see how badly turmoil in the sector will drag down inflation and hiring.
- While reassuring that “the U.S. banking system is sound and resilient,”² Mr. Powell “opened the door to the possibility that this was the last rate increase,”³ said Marc Sumerlin, a former economic advisor to President George W. Bush.
 - Key statement language turned more dovish, shifting from indicating investors should expect “ongoing increases” to instead suggesting only “some additional policy firming may be appropriate.”
- Stocks rose initially, but then declined rather significantly as investors digested the rate decision. All major U.S. averages finished the session down 1.6%, though clawed back to finish the week positive across the board.
 - Treasury yields moved decisively lower on the central bank news with the 2-year yield tucking under 4% and the 10-year hovering around 3.5%.

How do Federal Reserve policy decisions impact you?

- First and foremost, investors can take some solace in the Fed’s confirmation that the U.S. banking sector remains on solid footing despite a couple, headline-grabbing regional failures.
 - However, in their own words, “Recent developments are likely to result in tighter credit conditions for households and businesses and to weigh on economic activity, hiring, and inflation. The extent of these effects is uncertain. The Committee remains highly attentive to inflation risks.”⁴
- Equally as important, the continuation of the Fed’s monetary tightening regime and resolve to continue raising interest rates despite the banking turmoil indicates that inflation is still significant.
 - “The Fed is saying, ‘we know our actions are causing economic slippage, but we need to take them anyway because inflation is still hot,’” said Jason Pride, chief investment officer of Glenmede’s private wealth business.⁵



A LOOK FORWARD¹

- This week is highlighted by Personal Consumption Expenditure (PCE) index data which will be released Friday morning.
 - Markets currently expect an increase in the Core PCE index of 0.4% for the month of February, resulting in a year-over-year reading of 4.7% – holding steady from the previous month.

How does the bank collapse impact you?

- Bank of America Securities Global Research team uses recent Consumer Price Index (CPI) and Producer Price Index (PPI) data to extrapolate indications for PCE readings, which generally release a week or two later for the same reference period.
 - Incorporating recent data from these two indices led the team to forecast in line with market expectations, although “it would still leave inflation well above the Fed’s 2% target and support [their] call for a 25 bp hike in March and a terminal rate of 5.25-5.50% in June,” implying two additional 25 bp hikes.⁶



MARKET UPDATE⁷

Market Index Returns as of 3/24/23	WTD	QTD	YTD	1 YR	3 YR	5 YR
S&P 500 TR USD	1.41%	3.86%	3.86%	-11.08%	18.97%	10.88%
NASDAQ Composite TR USD	1.68%	13.22%	13.22%	-15.80%	17.93%	12.09%
DJ Industrial Average TR USD	1.18%	-2.21%	-2.21%	-5.53%	17.39%	8.85%
Russell Mid Cap TR USD	0.79%	-0.76%	-0.76%	-13.07%	18.52%	7.48%
Russell 2000 TR USD	0.53%	-1.18%	-1.18%	-15.26%	17.51%	4.18%
MSCI EAFE NR USD	1.59%	4.28%	4.28%	-3.99%	12.61%	2.92%
MSCI EM NR USD	2.23%	1.97%	1.97%	-11.05%	7.68%	-1.29%
Bloomberg US Agg Bond TR USD	0.52%	3.44%	3.44%	-3.37%	-2.17%	1.10%
Bloomberg US Corporate High Yield TR USD	0.35%	1.80%	1.80%	-4.15%	7.38%	2.88%
Bloomberg Global Aggregate TR USD	0.75%	3.39%	3.39%	-6.83%	-2.62%	-1.28%



OBSERVATIONS

- Despite ongoing banking turmoil and a sour response to the week’s Fed meeting, the major U.S. averages all finished the week up more than 1% with the NASDAQ leading the way, registering a 1.68% gain.
- International stocks performed well, but EM outpaced international developed markets by nearly a percent and beating all other stock indices on the week, returning +2.23%.
- Small caps underperformed their large cap peers with the Russell 2000 Index up just 0.53% for the week.
- Bonds had another solid week with yields contracting significantly in response to the Fed news.
 - The Bloomberg US AGG Bond index returned +0.52%, and Bloomberg Global AGG index +0.75%.



BY THE NUMBERS

- **Miami, San Diego State Join a Men’s Final Four That Is Missing the Top Seeds:** At this time last year, a collection of college basketball’s royalty—Duke, Kansas, North Carolina and Villanova—was preparing to gather for one of the highest-pedigreed Final Fours in men’s tournament history. This season, the glamor teams are out, replaced by a trio of lesser-known underdogs from beach communities—Miami, San Diego State and Florida Atlantic—plus the northerners from Connecticut, who are by far the most familiar basketball power in the pack. It is the first time since 2011 that none of the tournament’s No. 1 or No. 2 seeds reached the Final Four. Miami and San Diego State, each a No. 5 seed, defeated second-seeded Texas and sixth-seeded Creighton respectively on Sunday. Both games were thrillers that saw early deficits overcome and late, nervy moments endured. The Hurricanes and Aztecs join a Final Four that already included No. 9 seed Florida Atlantic and No. 4 seed UConn, who won their regional finals on Saturday.⁸
- **First Citizens Acquires Much of Failed Silicon Valley Bank:** First Citizens Bancshares Inc., one of the nation’s largest regional banks, is buying large pieces of Silicon Valley Bank more than two weeks after the lender’s collapse sent tremors through the banking system. The Federal Deposit Insurance Corp. said First Citizens is acquiring all of Silicon Valley Bank’s deposits, loans and branches, which will open Monday morning under the new ownership. The purchase includes \$56.5 billion in deposits and about \$72 billion of SVB’s loans at a discount of \$16.5 billion. Some \$90 billion of SVB’s securities will remain in receivership. Regulators took control of Santa Clara, Calif.-based SVB on March 10. The collapse sparked a panic that led to the weekend failure of Signature Bank and a dramatic intervention by financial regulators aimed at easing fears that depositors would flee smaller lenders. The sale represents a milestone in regulatory efforts to clean up after two of the largest bank failures in history, at a time when investors are on edge about the health of the global financial system. Shares of First Citizens surged more than 40% shortly after the opening of trading Monday. Shares of other regional banks including First Republic Bank, PacWest Bancorp and Western Alliance Bancorp were also higher.⁹

Economic Definitions

Federal Reserve (Fed): The Federal Reserve System is the central banking system of the United States of America.

CPI (headline and core): Consumer prices (CPI) are a measure of prices paid by consumers for a market basket of consumer goods and services. The yearly (or monthly) growth rates represent the inflation rate.

Producer Prices - PPI (headline and core): Producer prices (output) are a measure of the change in the price of goods as they leave their place of production (i.e. prices received by domestic producers for their outputs either on the domestic or foreign market).

PCE (headline and core): PCE deflators (or personal consumption expenditure deflators) track overall price changes for goods and services purchased by consumers. Deflators are calculated by dividing the appropriate nominal series by the corresponding real series and multiplying by 100.

Index Definitions

S&P 500: The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

NASDAQ: The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

Dow Jones Industrial Average: The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Russell Mid-Cap: Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 25% of the total market capitalization of the Russell 1000 Index.

Russell 2000: The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The real-time value is calculated with a base value of 135.00 as of December 31, 1986. The end-of-day value is calculated with a base value of 100.00 as of December 29, 1978.

MSCI EAFE: The MSCI EAFE Index is a free-float weighted equity index. The index was developed with a base value of 100 as of December 31, 1969. The MSCI EAFE region covers DM countries in Europe, Australasia, Israel, and the Far East.

MSCI EM: The MSCI EM (Emerging Markets) Index is a free-float weighted equity index that captures large and mid-cap representation across Emerging Markets (EM) countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

Bloomberg Barclays US Agg Bond: The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

Bloomberg Barclays High Yield Corp: The Bloomberg Barclays US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded.

Bloomberg Barclays Global Agg: The Bloomberg Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

Bloomberg Barclays Municipal Bond Index: The Bloomberg Barclays U.S. Municipal Index covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.

Disclosures

Index performance does not reflect the deduction of any fees and expenses, and if deducted, performance would be reduced. Indexes are unmanaged and investors are not able to invest directly into any index. Past performance cannot guarantee future results.

The statements provided herein are based solely on the opinions of the Advisor Group Research Team and are being provided for general information purposes only. Neither the information nor any opinion expressed constitutes an offer or a solicitation to buy or sell any securities or other financial instruments. Any opinions provided herein should not be relied upon for investment decisions and may differ from those of other departments or divisions of Advisor Group or its affiliates. Certain information may be based on information received from sources the Advisor Group Research Team considers reliable; however, the accuracy and completeness of such information cannot be guaranteed. Certain statements contained herein may constitute “projections,” “forecasts” and other “forward-looking statements” which do not reflect actual results and are based primarily upon applying retroactively a hypothetical set of assumptions to certain historical financial information. Any opinions, projections, forecasts and forward-looking statements presented herein reflect the judgment of the Advisor Group Research Team only as of the date of this document and are subject to change without notice. Advisor Group has no obligation to provide updates or changes to these opinions, projections, forecasts and forward-looking statements. Advisor Group is not soliciting or recommending any action based on any information in this document.

Securities and investment advisory services are offered through the firms: FSC Securities Corporation, Royal Alliance Associates, Inc., SagePoint Financial, Inc., Triad Advisors, LLC, Infinex Investments, Inc., and Woodbury Financial Services, Inc., broker-dealers, registered investment advisers, and members of FINRA and SIPC. Securities are offered through Securities America, Inc., American Portfolios Financial Services, Inc., and Ladenburg Thalmann & Co., broker-dealers and member of FINRA and SIPC. Advisory services are offered through Arbor Point Advisors, LLC, American Portfolios Advisors, Inc., Ladenburg Thalmann Asset Management, Inc., Securities America Advisors, Inc., and Triad Hybrid Solutions, LLC, registered investment advisers. Advisory programs offered by FSC Securities Corporation, Royal Alliance Associates, Inc., SagePoint Financial, Inc., Securities America Advisors, Inc., Triad Advisors, LLC., and Woodbury Financial Services, Inc., are sponsored by VISION2020 Wealth Management Corp., an affiliated registered investment adviser. 5591379

¹ Data Obtained from Bloomberg as of 03/24/2023.

² [Fed's Policy Statement Says Banking System Is 'Sound and Resilient' \(wsj.com\)](#)

³ [Fed Raises Rates but Nods to Greater Uncertainty After Banking Stress - WSJ](#)

⁴ [Fed's Policy Statement Says Banking System Is 'Sound and Resilient' \(wsj.com\)](#)

⁵ [Stocks Fall as Investors Digest Fed Rate Hike - WSJ](#)

⁶ [Global Research Highlights \(ml.com\)](#)

⁷ Data Obtained from Morningstar as of 03/24/2023.

⁸ [Miami, San Diego State Join a Men's Final Four That Is Missing the Top Seeds - WSJ](#)

⁹ [First Citizens Acquires Much of Failed Silicon Valley Bank - WSJ](#)