Weekly Market Report

Friday, March 24th 2023

INDEX PERFORMANCE

Index Name	WTD % CHG	YTD % CHG
DOW JONES	1.013%	-2.904%
NASDAQ	1.558%	12.853%
S&P	1.342%	3.378%
FTSE	2.050%	5.069%
APAC EX JAPAN	3.057%	3.025%

SECTOR PERFORMANCE

Sector Name	WTD % CHG	YTD % CHG
Communication Services	2.271%	14.419%
Information Technology	1.396%	16.214%
Real Estate	-2.334%	-4.619%
Consumer Discretionary	-0.163%	8.963%
Materials	1.633%	-0.523%
Financials	-0.200%	-9.537%
Industrials	0.347%	-0.235%
Health Care	0.816%	-5.898%
Consumer Staples	1.456%	-1.441%
Utilities	-2.281%	-6.971%
Energy	1.045%	-11.502%

Market Summary

Equities:

Equity markets returned to choppy waters as the largest central bank in the world delivered its highly anticipated policy decision. After the FEDs delivery of a 25bps and subsequent commentary around the decision, equity markets sold off. The hardest-hit sector was real estate (-2.34%) due to a two-prong issue facing the industry, higher borrowing costs, and structural problems with the commercial market. Communications caught a bid this week, gaining 2.27% as a rival competitor to many domestic media companies faced difficult questions from congress as they're being scrutinized and possibly banned from US markets. The volatility index, VIX, bounced around aggressively this week only to finish at a subdued $21.74. After the dust settled, the S&P 500 finished up 1.34%, only to be outpaced by the Nasdaq composite, which gained 1.55%.

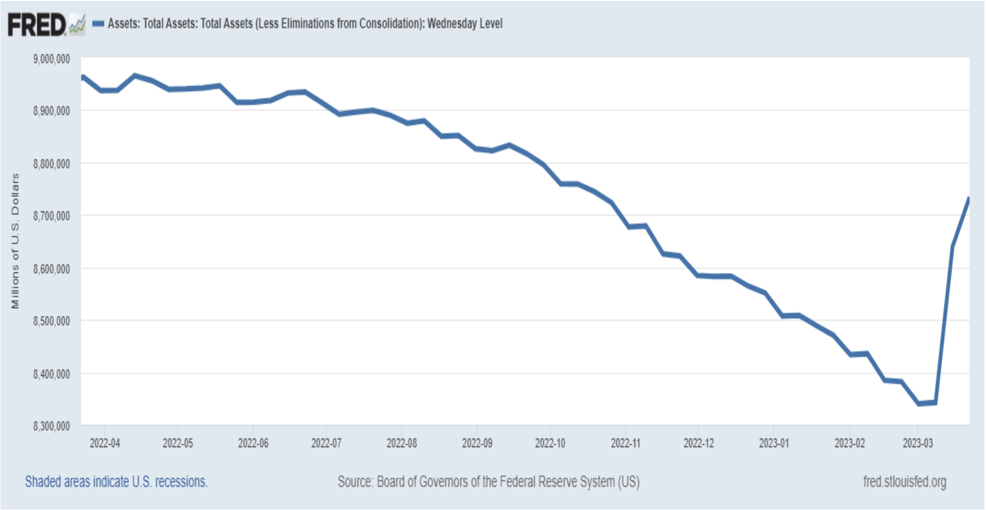
Fixed Income:

Bond investors have faced macroeconomic data and policy decisions over the last few weeks that have brought volatility back significantly. As a result, the US 2 year has moved aggressively and tightened against the 10-year bond significantly. Currently, the 2vs 10 yr US bond spread sits at 40bps vs. earlier this year when it traded over 100 bps. This move down in yields is directly in the face of a higher terminal rate showing a flight to safety in the fixed-income market. Corporate credit on the high-yield side held its option-adjusted spread at 510bps, where it sat a week prior. Across the pond, in Europe, the German 2-year also saw dramatic moves downward in yields to 2.42% after its intra-week high traded near 2.7%. This week saw continued volatility, especially in shorter-dated sovereign debt, as investors opted for safety over risk.

Economy:

This week's macroeconomic news was centered around the "super bowl" of central bank policy meetings. The US FOMC members met for their March policy decision on Tuesday amid uncertainty in the global banking system. Several market participants and economists a like anticipated a more dovish tilt to the FEDs' overall messaging as financial stability is now called into question. FED president Powell and the committee concluded that the terminal rate should be raised by 25bps resulting in the target of 4.75-5%. After the formal press release occurs FED chair Powell reads the release and answers questions from reporters. Much of the sentiment that markets trade on and posture for comes from the overall hawkish or dovish tilt that the FED President is painting. March's press conference delivered a dovish tilt but still mentioned the need to hold policy restrictive to bring down inflation for the broader economy. This hawkish note, along with testimony from his counterpart Janet Yellen to congress where she noted that the treasury department is currently not looking to backstop all depositors or increase it. Market participants sold off the broader indexes on this commentary, and a flight for safety into shorter-dated US bonds ensued. Important to also note that this meeting coincided with the FOMC's release of their SEP (summary of economic projections). In these projections, an overall lower guided forecast for economic activity in the US shined through as GDP forecasts for 23' and 24' fell from .5% to .4% and 1.4% to 1.2%, respectively. Mean projections for the terminal rate stayed at 5.1% and held through 24' as PCE inflation projections remain well above their 2% target. Shifting focus to hard economic data points, the US released February new home sales to an upward surprise of +1.1% vs. estimates of -4.5%. This upward surprise was a bright spot for economic conditions as the rising rates negatively affected the real estate market due to the higher lending cost. Overall, this week provided investors with increased volatility as economic conditions and projections of those conditions are wide-ranging and difficult to grasp.

Federal Reserve Balance Sheet



FED Balance Sheet Run Off Reversed

- Through much of 22' the FOMC made note that the Federal reserve balance sheet will reduce substantially as they opted to let securities mature.
- It took just 2 weeks to reverse billions of dollars they unwound over a year period as the FED stepped in to back stop bank failures.

The CBOE Volatility Index® (VIX®) shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options. This volatility is meant to be forward looking and is calculated from both calls and puts. The VIX is a widely used measure of market risk and is often referred to as the "investor fear gauge.

Citations

Graph: https://fred.stlouisfed.org/series/QBPBSTAS
Data with write up: Trading Economics for Macroeconomic figures
Yahoo Finance for index pricing
Thompson Rueters

MoM: Month over month
YoY: Year over year
FED: US Federal reserve
QoQ: Quarter over quarter
FOMC: Federal Open Market Committee
PCE: Personal Consumption Expenditure