

MARKET VIEW WEEKLY

Philip Blancato, Chief Market Strategist, Advisor Group



ECONOMIC REVIEW¹

- Though a plethora of economic data was released last week, the main story continued to be the collapse of Silicon Valley Bank (SVB). However, we want to stress that this is different from 2008. SVB differed from a typical bank in that it had a concentrated customer base, with deposits from startup tech and healthcare companies that receive funding from venture-capital firms. Driven by a boom in funding during an era of near-zero interest rates, SVB’s deposits more than tripled between the end of 2019 and the first quarter of 2022, SVB in turn invested most of these deposits in fixed-income securities. As interest rates rose and venture-capital funding dried up, deposits declined sharply, forcing SVB to sell its fixed-income investments at a loss to raise cash.
- The release of the Consumer Price Index (CPI) and Producer Price Index (PPI) were meant to be last week’s highlight, but it was overshadowed by the banking sector.¹

CPI month-over-month	0.4%	PPI month-over-month	-0.1%
CPI year-over-year	6.0%	PPI year-over-year	4.6%
Core CPI month-over-month	0.5%	Core PPI month-over-month	0.0%
Core CPI year-over-year	5.5%	Core PPI year-over-year	4.4%

How do the banking collapse and Inflation data impact you?

- The first piece of good news is that most banks currently have enough capital to absorb these losses, in large part because of efforts taken by the Fed after the 2008 financial crisis to ensure financial firms can weather any storm.
- The second piece of good news is that inflation readings continue to fall. In the 12 months through February, the core CPI gained 5.5%. Representing the smallest rise since December 2021 and followed a 5.6% advance in January.¹
- Similarly, core PPI showed its lowest print since March of 2021. Because the producer-centric index captures price shifts upstream of the consumer, it’s sometimes looked to as a potential leading indicator of how prices may eventually land at the store level. This means consumers could start to see some relief at the retail level due to lower production costs.¹



A LOOK FORWARD¹

- The main thing that markets will be focused on this week is the Federal Reserve’s (Fed) rate hiking campaign. Had SVB and Signature Bank not failed, economists said both inflation and labor market data would be enough to prompt a faster 0.50% move from the Fed.

How does the bank collapse impact you?

- Fed officials have two main choices when deciding how to fight inflation while also dealing with the U.S. regional bank crisis. They can either turn a blind eye staying focused on price stability, continuing to pursue rate hikes despite the risk that it could add more tension to the banking sector. Or they can hold for now to provide the financial system time to stabilize, even if it comes at the risk of keeping price pressures hot.
- Ultimately, because of SVB’s and Signatures’ failures, this will likely lead to a tightening of financial conditions as banks become more risk averse leading to a slowdown in lending growth. Which means the Fed needs to do less of the heavy lifting to get to the same outcome.
- Finally, some food for thought, In a matter of days, the market moved from pricing in three rate hikes and zero cuts for the rest of 2023 to pricing in one final rate hike and three rate cuts. The 2-year Treasury yield plunged 1%, recording its biggest five-day move since 1987. In the past 30 years, whenever the 2-year yield fell below the federal funds rate, it has signaled the end of fed hiking.¹



MARKET UPDATE²

Market Index Returns as of 3/17/23	WTD	QTD	YTD	1 YR	3 YR	5 YR
S&P 500 TR USD	1.47%	2.41%	2.41%	-10.74%	19.69%	9.22%
NASDAQ Composite TR USD	4.44%	11.36%	11.36%	-15.54%	19.45%	10.21%
DJ Industrial Average TR USD	-0.11%	-3.35%	-3.35%	-6.34%	19.44%	7.33%
Russell Mid Cap TR USD	-2.03%	-1.53%	-1.53%	-12.92%	21.21%	6.24%
Russell 2000 TR USD	-2.57%	-1.70%	-1.70%	-16.03%	21.84%	3.05%
MSCI EAFE NR USD	-3.13%	2.64%	2.64%	-5.32%	15.81%	2.06%
MSCI EM NR USD	-0.28%	-0.25%	-0.25%	-12.80%	9.08%	-2.40%
Bloomberg US Agg Bond TR USD	1.43%	2.90%	2.90%	-5.61%	-1.67%	1.01%
Bloomberg US Corporate High Yield TR USD	-0.42%	1.44%	1.44%	-5.10%	6.29%	2.73%
Bloomberg Global Aggregate TR USD	1.65%	2.62%	2.62%	-9.03%	-2.63%	-1.31%



OBSERVATIONS

- Both the major indices of U.S. stocks and global stocks were mixed as investors grappled with assurances from federal authorities that depositors would be protected, helping to calm nerves in the banking sector.
- As a result, the tech-heavy NASDAQ returned +4.44%, beating both the S&P 500 and DJ Industrial Average.
- Small caps underperformed their large cap peers with the Russell 2000 Index down -2.57% for the week compared to the Russell Mid Cap Index down -2.03% and the S&P 500 Index up +1.47%.
- Bonds continued their positive trend, with yields again contracting significantly.
 - As a result, the Bloomberg US AGG Bond index returned +1.43%, and Bloomberg Global AGG index +1.65%.



BY THE NUMBERS

- **Silicon Valley Bank (SVB):** While the SVB collapse is a reminder of the unintended consequences that aggressive central bank tightening can create, it highlights the bank's poor interest rate risk management and unique customer base. Most banks rely on a variety of sources for deposits, tend to be much more retail-oriented, and hedge their interest rate risk. SVB's percentage of uninsured deposits (those exceeding the \$250k FDIC insurance limit) was 88%. By contrast, JP Morgan holds 59%, Wells Fargo holds 37%, Bank of America holds 32%, and Citibank holds 31%.³
- **UBS to the Rescue:** UBS came to the rescue of its long-time rival Credit Suisse yesterday. The acquisition was brokered by the Swiss government and at \$3.3 billion dollars, represents a 99% decline in Credit Suisse's price-per-share from its all-time highs. As one of the world's leading financial centers, Switzerland has a lot at stake in this rescue operation. Credit Suisse has a 167-year-old history but has lost investor confidence after numerous scandals and high-interest rates. Credit Suisse's clients have withdrawn over \$100 billion over the past three months, and experts worried the bank teetered on the brink of collapse.⁴
- Economic uncertainty has taken a toll on consumer sentiment. The University of Michigan's Index of Consumer Sentiment fell for the first time in four months in March, falling to 63.4 from last month's reading of 67, according to preliminary data.⁵

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).

University of Michigan Consumer Sentiment Index: Consumer confidence tracks sentiment among households or consumers. The results are based on surveys conducted among a random sample of households. Target Audience: representative sample of US households (excluding Alaska and Hawaii). Surveys of Consumers collects data on consumer attitudes and expectations summarized in the Consumer Sentiment, in order to determine the changes in consumers' willingness to buy and to predict their subsequent discretionary expenditures. This Index is comprised of measures of attitudes toward personal finances, general business conditions, and market conditions or prices. Components of the Index of Consumer Sentiment are included in the Leading Indicator Composite Index. Unit: Index (Q1 1966=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.

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¹ Data Obtained from Bloomberg as of 03/17/2023.

² Data Obtained from Morningstar as of 03/17/2023.

³ <https://www.edwardjones.com/us-en/market-news-insights/stock-market-news/stock-market-weekly-update>

⁴ <https://www.cNBC.com/2023/03/20/ubs-shares-tumble-after-emergency-rescue-of-rival-credit-suisse.html>

⁵ <https://www.barrons.com/articles/consumer-sentiment-falls-inflation-79b26b5>