



 Week of
March 27, 2023

Fed Continues Rate Hikes

Last week, the Fed raised interest rates by 25 basis points, as expected, which is the ninth rate hike in its ongoing fight against inflation. The Fed is maintaining its terminal rate projection of 5.125%, leaving the window open for another rate hike of 25 bps. (Next Fed meeting is set for May 2-3).

In announcing the hike, the Fed did acknowledge the recent disruptions in the U.S. banking system – which it expects to cause tightened credit conditions for households and businesses, something that could weigh on economic growth.

Fed Chair Powell said: “Such a tightening in financial conditions would work in the same direction as rate tightening. You can think of it as being the equivalent of a rate hike or perhaps more than that.” When he began his press conference, Powell addressed what was happening in the banking system and he clearly stated that the U.S. banking system is sound and resilient with strong capital and liquidity. U.S. Treasury Secretary Janet Yellen said last week that regulators are prepared to take additional steps to guard bank deposits if warranted.

Monday morning, it was announced that First Citizens Bancshares Inc. (FCNCA) would buy Silicon Valley Bank’s (SVB) deposits and loans from the FDIC, with \$90 billion to remain in receivership. While this is a positive for the regional banking crisis, a solution for First Republic Bank (FRC) is still needed.

We may see banks rally on the back of this news, but the risk is that they remain under pressure until the banking disruption is fully resolved.

Treasury Volatility Rises...

The ICE BofAML MOVE Index (MOVE) – which is a Treasury volatility index – reached levels not seen since 2008-2009 as there’s been a dramatic decline in rates across the yield curve driven by a flight to safety and short covering. It is important to acknowledge that the current U.S. banking crisis is not a credit crisis as in Great Financial Crisis. This is a duration mismatch of asset and liabilities on a select few regional banks’ balance sheets. This is a fixable issue, but it may take time as regulators attempt to find the most viable solutions.

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ICE BofA MOVE Index of Treasury Volatility



Source: Bloomberg March 24, 2023

...As Rates Continue to Fall

Since the U.S. banking crisis began two weeks ago, there has been a plummet in both Treasury short and long rates. Both rates appear to have peaked for this cycle. Both are very oversold, and we can see rates back up a bit – but the trend appears to be lower.

2-Year Treasury Yield Appear to Have Peaked



Source: Bloomberg March 24, 2023

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10-Year Treasury Yield Also Appear to Have Peaked



Source: Bloomberg March 24, 2023

S&P 500 Holding Support But Risk is to the Downside

The S&P 500 has held up very well given the current pressure on the banking sector. This is due to the mega cap technology stocks rallying during this crisis. But with only a select few stocks rallying, the market breadth (the difference between advancing and declining issues) has actually declined – this is a negative for the market.

If the credit tightening that Chair Powell referenced materializes, the risk is the economy will slow down and negatively impact earnings. In addition, psychological investors may want to become more defensive in their portfolios. Support range remains 3800-3700 but the next level for the S&P 500 to test is likely the 200-week moving average near 3736. The weekly stochastic is correcting from an overbought and sell signal, but it has not entered an oversold reading. We believe before the markets bottom, the stochastic will need to get oversold and bottom out. Should the 3700 level be breached, this would open the door for the index to test 3500.

S&P 500 Weekly Chart with 200-Week Moving Average & Weekly Stochastic



Source: Bloomberg March 24, 2023

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Bloomberg Cumulative Advanced-Decline Line for NYSE



Source: Bloomberg March 24, 2023

Positioning

We maintain that the equity markets remain in a secular bull market, but the risk near-term is for stocks to remain volatile. And that volatility might become more episodic as a credit tightening gets priced into the market with a risk of a recession – and until this banking crisis gets resolved. Given all this, we would move portfolios to be balanced between stocks and bonds, growth and value, and large versus small. Stay with Quality. Please refer to Sanctuary Asset Management's [Investment Council Report](#) for our latest asset and sector recommendations.

No Tea Leaves, Just Data

This is the week that the Fed continues to fight the good fight – against inflation.

Spring has sprung, but March won't go out like a lamb. This week we'll see initial jobless claims – a leading indicator of the employment picture – followed by core PCE (Personal Consumption Expenditures Price Index), which happens to be the Fed's favorite measure of inflation. If the PCE data comes in flat or down, the markets should react favorably. As always, we'll be watching the numbers vigilantly.



Calendar

Mon.

Earnings: Foot Locker, Pinduoduo
5:00 p.m. Fed Gov. Jefferson speaks
Earnings: BioNTech, Carnival, PVH

Tue.

8:30 a.m. Advanced U.S. trade balance in goods, retail inventories & wholesale inventories
9:00 a.m. S&P Case-Shiller home price index (20 cities), FHFA home price index
10:00 a.m. U.S. consumer confidence, Fed Gov. Barr testifies to Senate on banks
Earnings: Cal-Maine Foods, Dave & Buster's, Jefferies, Lovesac, Lululemon Athletica, McCormick, Micron Technology, Progress Software, Walgreens Boots Alliance

Wed.

10:00 a.m. Pending U.S. home sales, Fed Gov. Barr testifies to House on banks
Earnings: Bluebirdbio, Cintas, Conn's, H.B. Fuller, Paychex, RH, Semtech, Sportsman's Warehouse, UniFirst, Verint Systems

Thu.

8:30 a.m. Initial jobless claims, Continuing jobless claims, GDP (2nd revision)
12:45 p.m. Boston Fed President Collins speaks
Earnings: AngioDynamics, BlackBerry, Lithium Americas, Neogen, Veradigm

Fri.

8:30 a.m. Personal income & Personal spending (nominal), PCE
9:45 a.m. Chicago Business Barometer
10:00 a.m. Consumer sentiment (final), Fed Gov. Waller speaks
3:05 p.m. New York Fed President Williams speaks
5:45 p.m. Fed Gov. Cook speaks

Source: MarketWatch/Kiplinger

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