Weekly Market Recap

March 27, 2023

	Price	Price Returns	
Index	**Close**	**Week**	**YTD**
S&P 500® Index	3,971	1.4%	3.4%
Dow Jones Industrial Average	32,238	1.2%	-2.7%
NASDAQ	11,824	1.7%	13.0%
Russell 2000® Index	1,735	0.5%	-1.5%
MSCI EAFE Index	2,052	3.3%	2.9%
Ten-Year Treasury Yield	3.38%	0.0%	-0.5%
Oil WTI[1] ($/bbl[2])	$69.20	3.7%	-13.8%
Bonds[3]	$100.16	0.7%	3.6%

[1]WTI = West Texas Intermediate Oil. [2]bbl = Barrel. [3]Bonds are represented by the iShares U.S. Aggregate Bond ETF. Sources: Bloomberg L.P.; FactSet.

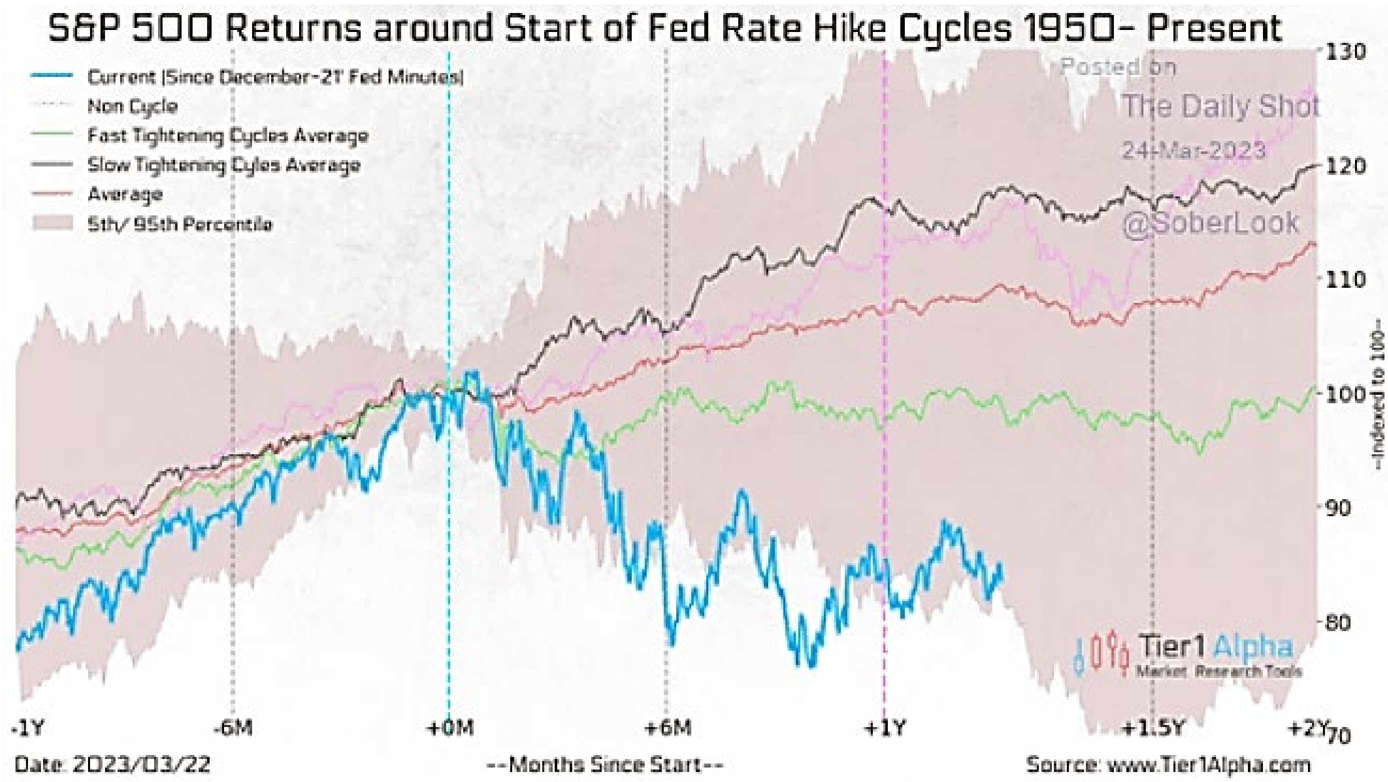
Last Week:

U.S. Equity Market

- U.S. large-cap equities (S&P 500 Index) ended up +1.4% this week after volatile trading tied to the Federal Reserve (Fed) meeting, significant movements for interest rates, and concerns for other potential bank failures. At the March 22 Fed meeting, the Fed raised rates by 25 basis points (bps) as expected. However, the subsequent policy statement changed the narrative around future rate increases, which now reads "some additional policy firming may be appropriate." The path of the balance sheet runoff was unchanged, and Fed Chair Jerome Powell downplayed potential rate cuts in 2023. Despite Powell's comments, futures markets believe the fed funds rate has peaked and expect between 100-125 bps of rate cuts by the end of this year, starting in the summer. The policy-sensitive two-year yield fell as low as 3.44% on Friday after reaching a peak of 4.26% on Wednesday. The ten-year yield dropped three bps to 3.38%. The dollar fell -0.6%, gold rose +0.5%, and WTI rose +3.7%.

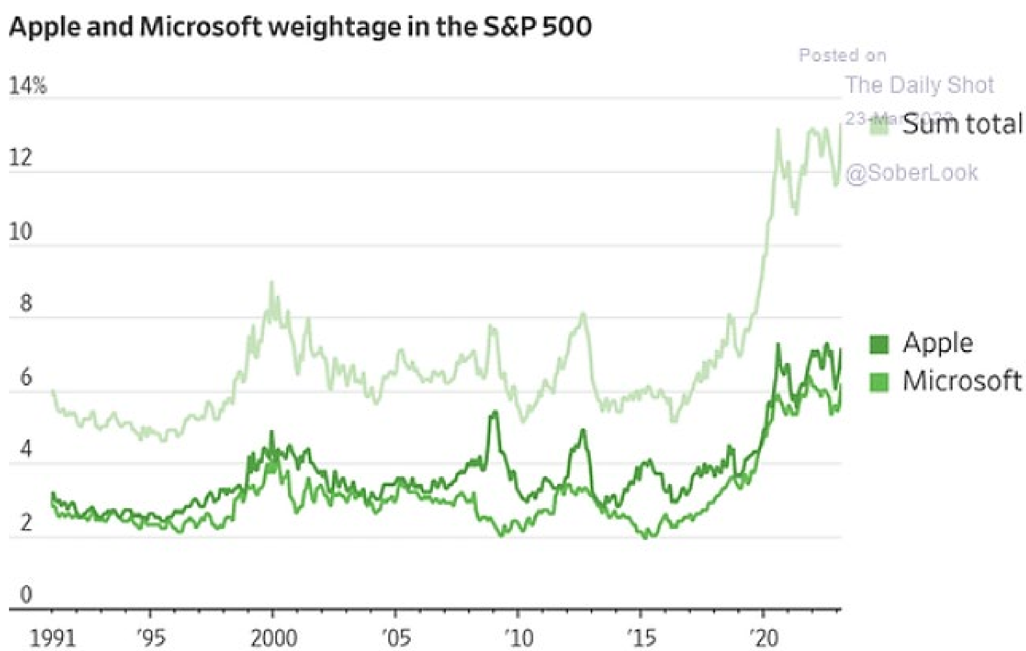
- S&P 500 Index Sector Returns:
  - Communication services (+3.4%) rose, led by streaming, social media, and internet stocks.
  - Energy (+2.3%) rose, as the price of WTI increased +3.7%.
  - Materials (+2.1%) rose, led by chemical companies and precious metals stocks.
  - Technology (+2.0%) outperformed, with strength from software and chip stocks.
  - Consumer staples (+1.4%) and healthcare (+1.5%) rose, as investors favored more defensive stocks.
  - Industrials (+0.7%) rose, led by aerospace and defense stocks.
  - Financials (+0.6%) underperformed, with weakness from the banks due to continued concerns around customers withdrawing cash and opting for higher-yielding money market funds or treasuries.
  - Consumer discretionary (+0.4%) underperformed, with weakness from home improvement retail and travel stocks.
  - Utilities (-1.2%) declined, as interest rates were volatile.
  - Real estate investment trusts (REITs) (-1.4%) fell, with weakness in office, data center, and public storage REITs.

- The chart below shows the current cycle of the S&P 500 Index relative the average Fed rate tightening cycle, fast tightening cycle average, slow tightening average, and non-tightening cycles, as well as the 5th and 95th percentile of the range of the historical outcomes.



Sources: Tier1Alpha; The Daily Shot.

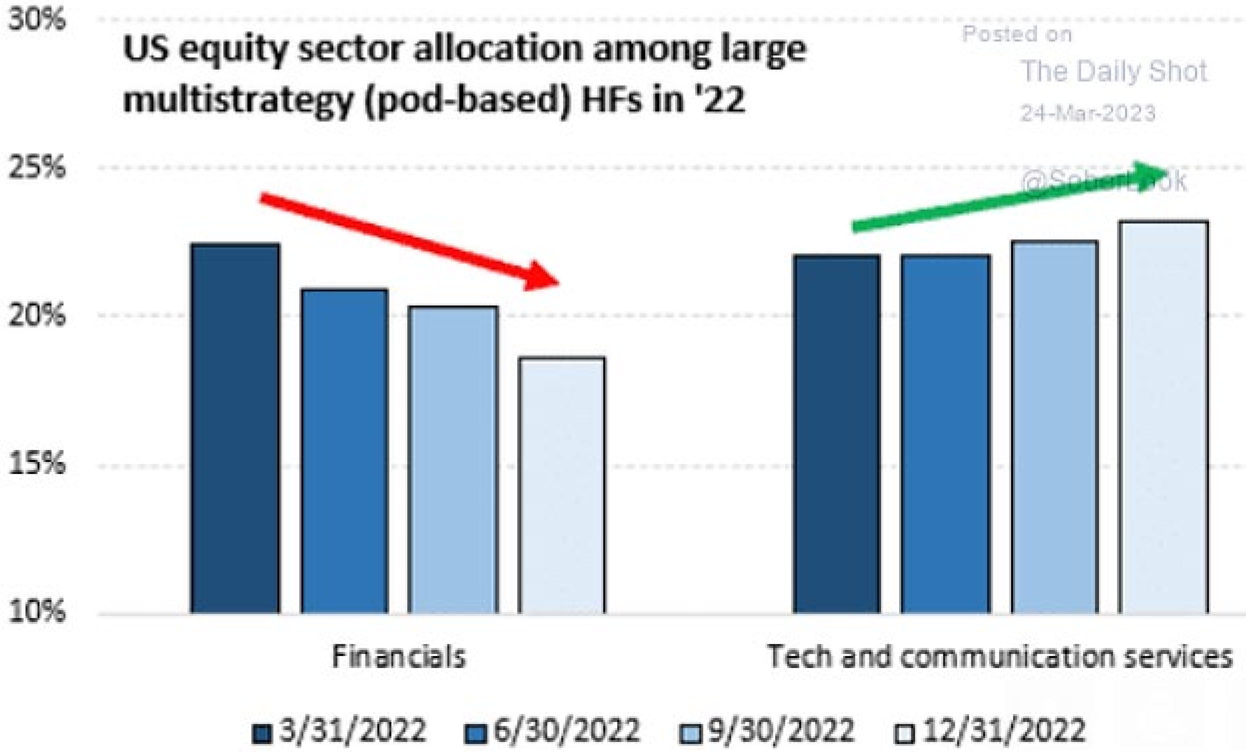
- The weight of Apple and Microsoft in the S&P 500 Index continue to increase, nearing all-time highs.



Sources: Srategas; The Daily Shot.

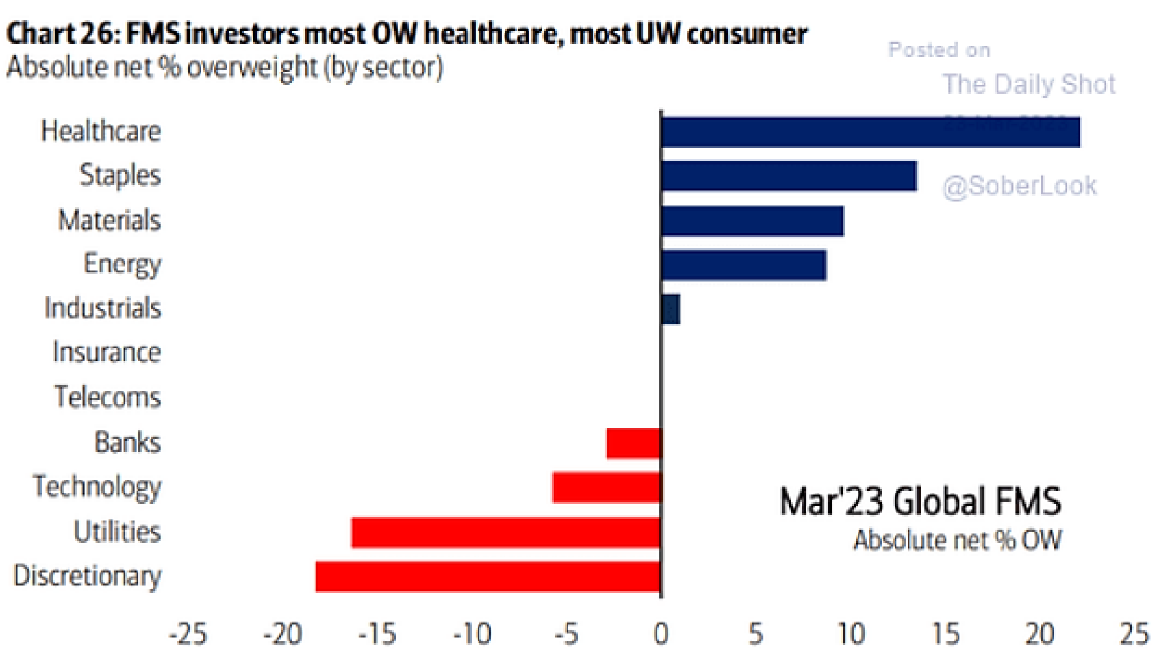
Past performance is not indicative of future results. Any type of investing involves risk and there are no guarantees that these methods will be successful. Please reference important disclosures on page 6.

- Institutional investors appear to be reducing their allocation to the financials sector and increasing their exposure to the information technology and communication services sectors.



HFs: hedge funds. Sources: Bloomberg L.P.; VandaTrack; The Daily Shot.

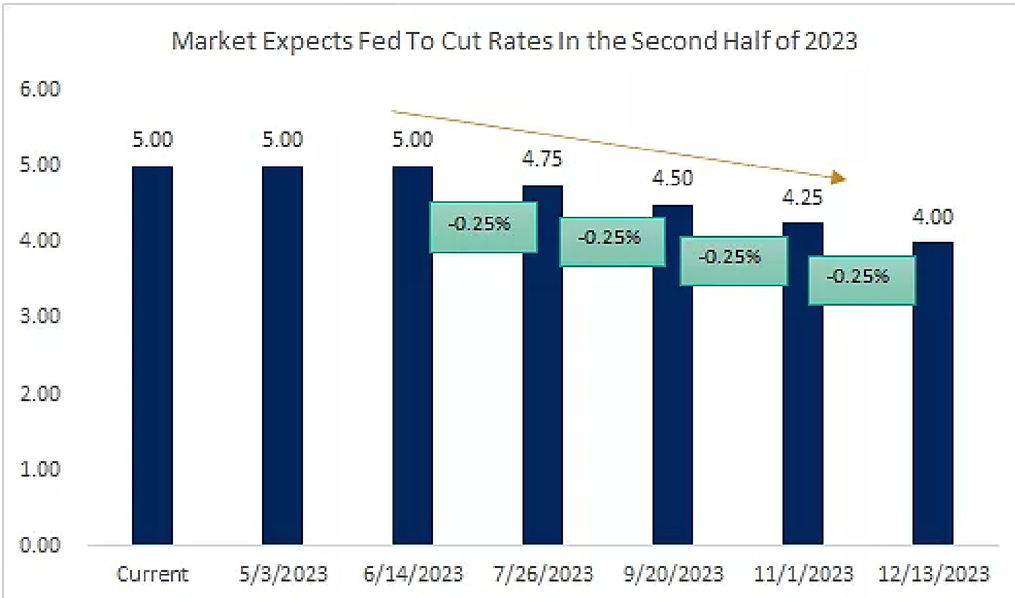
- The Bank of America fund manager survey (FMS) suggests that fund managers are overweight in the healthcare, consumer staples, materials, and energy sectors.



Sources: Bank of America Global Research; The Daily Shot.

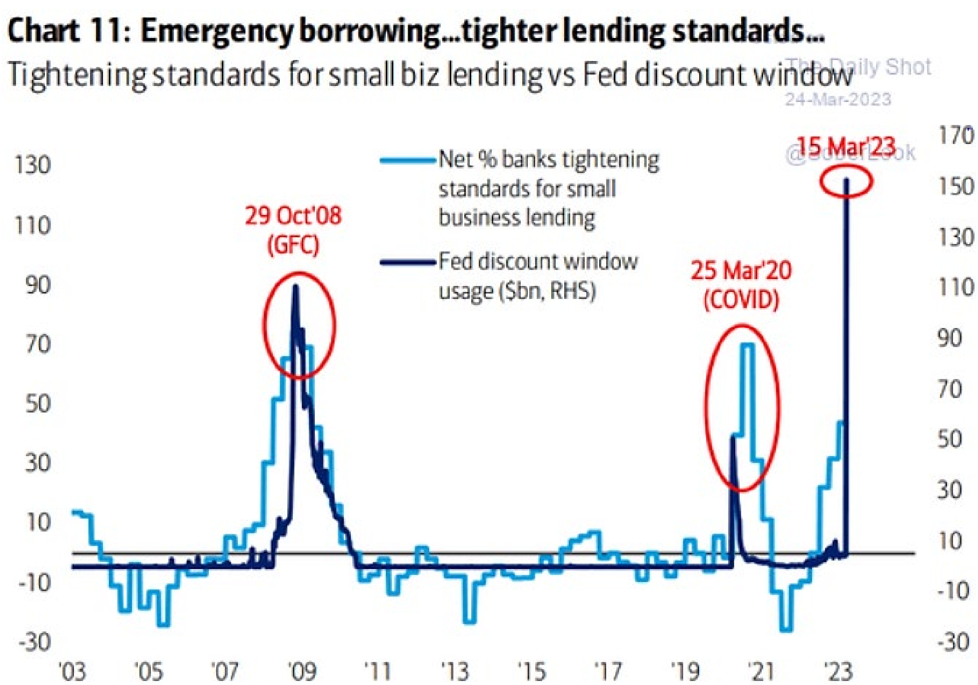
Fixed Income Markets

- The futures markets expect the Fed to cut rates in the second half of 2023, likely due to worsening economic, liquidity, and market conditions.



Sources: CME Fed Watch Tool; Edward Jones.

- Historically, when U.S. banks tap the Fed's discount window for emergency borrowing, U.S. banks also typically tighten standards for small business lending.



Left y-axis is tightening standards for small business lending, measured by net percentage. Right y-axis is billions of dollars.
Sources: Bank of America Global Investment Strategy; Bloomberg L.P.; The Daily Shot.

U.S. Economic and Political News

- This week, investors focused on the Fed's 25 bps hike and commentary around future tightening policy. Investors didn't appear to believe Powell's comments as the CME FedWatch Tool signaled a 94.8% chance that the Fed will cut rates this summer.

International Markets and News

- European markets (STOXX 600 Index) rose +0.9% despite the decline in local bank stocks as the agreement by UBS to buy Credit Suisse improved sentiment for the banking sector.
    - The Bank of England (BoE) raised interest rates by 25 bps to 4.25%, and financial markets expect the BoE to raise rates as February consumer prices rose 10.4% year-over-year.
- The Chinese stock market (Shanghai Composite) added 0.5% as the People's Bank of China (PBOC) left its benchmark one-year and five-year loan prime rates (LPR) at 3.65% and 4.30%, respectively.
- Japanese equities (Nikkei 225 Index) rose +0.2% as the six major central banks, including the Bank of Japan (BoJ), announced coordinated action on March 19 to enhance the provision of liquidity and ease strains in global funding markets.

This Week:

- The volume of corporate earnings reports will be light this week.
- Economic data:
    - Monday: March Dallas Fed Index;
    - Tuesday: S&P Case-Shiller Home Price Index, March consumer confidence;
    - Wednesday: February pending home sales;
    - Thursday: Initial jobless claims;
    - Friday: March core personal consumption expenditures (PCE), personal income, consumer sentiment.

As always, thank you very much for your interest in our thoughts and support of our services.

Whitney Stewart, CFA®
Executive Director

Griffith Jones, Jr.
Executive Director

Please reference important disclosures on page 6.

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Performance is compared to an index, however, the volatility of an index varies greatly. Indices are unmanaged and investments cannot be made directly in an index.

The S&P 500® Index is a readily available, carefully constructed, market-value-weighted benchmark of common stock performance. Currently, the S&P 500 Composite includes 500 of the largest stocks (in terms of stock market value) in the United States and covers approximately 80% of available market capitalization.
The Russell 2000® Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000® Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000® is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set.
The Dow Jones Industrial Average (DJIA) is an index that tracks 30 large, publicly-owned blue chip companies trading on the New York Stock Exchange (NYSE) and the NASDAQ.
The NASDAQ Composite Index is the market capitalization-weighted index of over 2,500 common equities listed on the NASDAQ stock exchange. The types of securities in the index include American depositary receipts, common stocks, real estate investment trusts (REITs) and tracking stocks, as well as limited partnership interests. The index includes all Nasdaq-listed stocks that are not derivatives, preferred shares, funds, exchange-traded funds (ETFs) or debenture securities.
The MSCI EAFE Index is an equity index which captures large and mid-cap representation across 21 Developed Markets countries around the world, excluding the U.S. and Canada. With 900 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. Developed Markets countries in the MSCI EAFE Index include: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the U.K.
The STOXX Europe 600 Index is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. With a fixed number of 600 components, the STOXX Europe 600 Index represents large, mid and small capitalization companies across 17 countries of the European region: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Poland, Portugal, Spain, Sweden, Switzerland and the United Kingdom.
The Nikkei 225 is a price-weighted index composed of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange.
The Shanghai Stock Exchange Composite Index is a capitalization-weighted index. The index tracks the daily price performance of all A-shares and B-shares listed on the Shanghai Stock Exchange.

Technical Terms: **The CME FedWatch Tool** analyzes the probability of FOMC rate moves for upcoming meetings. Using 30-Day Fed Fund futures pricing data, which have long been relied upon to express the market's views on the likelihood of changes in U.S. monetary policy, the tool visualizes both current and historical probabilities of various FOMC rate change outcomes for a given meeting date. The term **federal funds rate** refers to the target interest rate set by the Federal Open Market Committee (FOMC). This target is the rate at which commercial banks borrow and lend their excess reserves to each other overnight. The FOMC, which is the policymaking body of the Federal Reserve System, meets eight times a year to set the target federal funds rate, which is part of its monetary policy. This is used to help promote economic growth. The use of **hedge funds** in financial portfolios has grown dramatically since the start of the 21st century. A hedge fund is just a fancy name for an investment partnership that has freer rein to invest aggressively and in a wider variety of financial products than most mutual funds. An estimated total of **personal consumption expenditures (PCEs)** is compiled by the U.S. government monthly as one way to measure and track changes in the prices of consumer goods over time. PCEs are household expenditures. PCEs as well as personal income statistics and the PCE Price Index are released monthly in the Bureau of Economic Analysis (BEA) Personal Income and Outlays report. (Technical definitions are sourced from Corporate Finance Institute.)

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