CORRIGAN FINANCIAL, INC.

Market Update: March 2023

Global stocks and bonds each advanced about 3% in March, as investors survived a hectic month with solid returns. Despite bank failures and ongoing inflation concerns, domestic and foreign stocks had similar returns of about 7% for the quarter. The technology-based Nasdaq Composite index had a quarterly gain of 17%, a nice bounce after the 32% decline during calendar 2022.

> **The first quarter was one for the record books. At the start of the year, investors unexpectedly scrambled back into speculative stocks that were hammered in 2022 when the Federal Reserve started raising interest rates. The period ended with a mad dash out of the banking system that few could have foreseen just weeks earlier.**
>
> **Vicky Ge Huang – WSJ 4/1/23**

The last three months were interesting, to say the least. With inflation subsiding, 2023 started off with a sense of optimism. But that optimism soon faded. Early economic data came in too hot, increasing concerns that the Federal Reserve would likely keep interest rates higher for longer. Then in March, Silicon Valley Bank and Signature Bank collapsed. Bank stocks plunged, and Credit Suisse Group was soon forced into a shot-gun wedding with rival bank UBS Group.

> **The banking crisis has reignited bets that the Federal Reserve could soon slow its interest-rate increases, giving a boost to stocks, particularly shares of technology companies.**
>
> **Hannah Miao – WSJ 4/2/23**

Growth stocks advanced nearly 14% for the quarter, while their value counterparts were relatively flat. Value investments were weighed down by their exposure to financial services. Growth stocks were propelled by their high exposure to technology. Commodity prices declined 8%, primarily the result of lower energy prices. The yield on the benchmark 10-year U.S. Treasury note finished the month at 3.49%, down from 3.83% at the end of last year.

The U.S. labor markets are strong, and inflation, while still too high, is moderating. The Fed remains fully committed to fighting inflation, but Wall Street believes the Fed will begin cutting rates later in the year.

> **There's a disconnect between market expectations for the Fed and what the Fed is saying.**
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> **Michelle Cluver, Global X ETFs – WSJ 3/31/23**

Total assets in money-market funds are at an all-time high, according to the Investment Company Institute. Retail investors have added nearly $200 billion to these funds since the start of the year … a record quarterly inflow. According to Crane Data, the average yield on money-market funds is currently 4.6% … up from 0.02% at the start of 2022.

> **Given that you can now enjoy good income strategies without necessarily having to take additional risk, clients are starting to look at rebalancing strategies to take some money off the table on risky assets.**
>
> **Omar Aguilar, Schwab Asset Management – WSJ 4/2/23**

February saw the first year-over-year drop in home prices in over a decade, according to the National Association of Realtors. The median existing-home sale price declined by 0.2% in February from a year earlier to $363,000. The median price is down 12.3% from the record highs reached in June 2022. The inventory of homes for sale remains at historically low levels, with mortgage rates still in excess of six percent.

> **Many economists expect home prices to keep falling this spring. But home-buying affordability is likely to remain worse than it was a year ago, because prices would have to drop significantly to fully offset the increase in mortgage rates.**
>
> **Nicole Friedman – WSJ 3/21/23**

The Federal Reserve raised the benchmark federal-funds rate by another quarter-percentage point in March. It was the Fed's ninth consecutive hike, and it brings the rate to a range between 4.75% and 5%, the highest level in over 15 years. The Fed also hinted that it may be near the end of the rate-rise campaign.

It's been said that the Fed raises rates until something breaks. Well, that something became a regional banking crisis. On the asset side, small and medium-sized banks faced losses on longer-term government securities. On the liability side, depositors were asking for their money back. Such pressures on banks are expected to further tighten lending standards, a drag on economic growth that is considered the equivalent of another Fed rate hike.

> **But that doesn't mean the Fed will necessarily begin lowering or even stop raising rates from here. In other words, it may keep one foot on the brake pedal (through rate hikes) even as it taps the accelerator by providing liquidity (or bailouts, if you want to use a dirty word) to the banking system.**
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> **Sebastien Page – T. Rowe Price Insights March 2023**

Bank regulators apparently did not fully appreciate the potential effects that rising interest rates would have on member banks. In addition, regulators seemed to be caught flat-footed on the significant risks associated with uninsured deposits.

If banking regulators reacted like Fred Flintstone, depositors most definitely responded like George Jetson.

On the day Silicon Valley Bank was seized by regulators, depositors had already withdrawn $42 billion. According to testimony from Michael Barr, vice chair for supervision at the Federal Reserve, an additional $100 billion was scheduled to be withdrawn the next day. In other words, approximately 80% of SVB's deposits could have been withdrawn in only two days.

> **The dizzying pace at which money left SVB shows how quickly bank runs can happen when social media heightens panic and online banking allows for quick transactions.**
>
> **CNBC – 3/28/23**

Activity in China's services sector is now at its highest level in more than a decade, after nearly three years of Covid-19 restrictions. In response, the World Bank raised China's growth forecast to 5.1% for 2023.

> **There is no doubting the strength of the rebound in the (Chinese) economy. The more interesting question is how China chooses to grow, and not just how much growth will be in the short term.**
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> **Aaditya Mattoo, World Bank – WSJ 3/31/23**

The durability of China's consumer demand is still questionable, as households emerge from the pandemic facing a struggling real estate sector and a weak jobs market. (*For example, unemployment in the 16-to-24-year-old group currently stands at just over 18 percent.*) China's manufacturing sector, generally considered its engine for economic growth, has drifted lower as Western demand for Chinese exports has faded. In addition, local governments are struggling to manage the massive debt levels accumulated during the pandemic.

At this point, it would seem that regulators and bank executives have been able to restore confidence in the financial system. So far, the markets have proven to be quite resilient in the face of all this uncertainty. After all, the recession that financial gurus confidently predicted has yet to materialize.

> **If nothing else, it seems clear that we're not heading for a systemwide meltdown akin to 2008.**
>
> **Nicholas Jasinski – Barron's 3/31/23**

If there is another shoe to drop, it would be in an area where leveraged bets are being made in a rising rate environment. Commercial real estate would seem to fit that description. This year there are an estimated $270 billion of commercial mortgages held by banks that are set to expire. That is the highest figure on record, and most of these loans are held by banks with less than $250 billion in assets.

Many investors remain disillusioned by the sharp declines in both equity and bond markets during 2022. Some might not realize that global stocks are up nearly 18% over the past six months, with domestic and foreign stocks up by about 15% and 22%, respectively. Global bond markets have also bounced back with returns of more than 7% over the past two quarters.

> **By no means are we looking at clear skies yet, but calmer waters after a tumultuous March could provide support for balanced portfolios in the remainder of the year.**
>
> **J.P. Morgan Asset Management – Market Insights 3/27/23**

Thanks for your support. And yes, let's all hope for calmer waters.

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