At Passage Wealth, it is important that you are well informed about what is happening in the markets. Here are a few of the key topics of conversation that deserve the most attention this month. If you have any questions or would like to continue the conversation, please reach out.

SVB Rattles Markets!

Silicon Valley Bank (SVB) collapsed over a five-day period starting on March 8, 2023. The events were triggered by a run on the bank after it announced that it had sold securities at a loss and needed to raise $2.25 billion to plug the hole in its finances. SVB's bond portfolio, heavily invested in US government bonds during the era of near-zero interest rates, suffered when the Federal Reserve hiked interest rates aggressively to tame inflation. Rising borrowing costs for tech startups, which make up a majority of SVB's depositors, forced them to draw down on deposits held by SVB to fund their operations and growth, leading to a run on the bank. US regulators have guaranteed all SVB customers' deposits but investors in the company's stock and bonds will not be protected. Although there are signs of stress at other banks, notably the failure of Signature Bank, most analysts do not expect a banking crisis as US and European banks have much stronger financial buffers now than during the global financial crisis.

Investors turned to US government bonds following the collapse of SVB, causing Treasury yields to drop by around 100 basis points since last March 8, 2023, marking the largest three-day decline since October 1987. The Federal Reserve was largely expected to raise rates at its upcoming meeting, but this has been questioned following the SVB's collapse. Futures markets expect that the Fed will not hike rates in March, due to recent stress in the financial sector. The same market is anticipating that by the end of the year, the central bank will cut 0.75[1] percentage points in cuts, taking the rate down to a target range of 4%-4.25%[1].

Inflation in February increased by 0.4%[2], reaching an annual inflation rate of 6%[2], according to the Bureau of Labor Statistics. Core CPI, which excludes volatile food and energy prices, rose by 0.5%[2] in February and 5.5%[2] on a 12-month basis. Despite recent banking industry turmoil, the inflation rate is in line with expectations. Fed officials expect housing costs, which make up one-third of the CPI, to slow down during the year.

The bottom line: Just when we think we can see the light at the end of the tunnel, yet another round of uncertainty hits the economy and markets. The good news is inflation and jobs data continue moving in the right direction. The bad news is we still have a weak economy and heightened investor anxiety.

Although equity markets have pulled back in recent days, we believe the "banking crisis" will move on from the headlines in the coming weeks. Until then, we could see some choppy days ahead.

Sources:

1. CME FedWatch Tool, https://www.bls.gov/news.release/cpi.nr0.htm
2. Bureau of Labor Statistics, https://www.bls.gov/news.release/cpi.nr0.htm

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The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.