



## Market Monitor: April 2023

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Still going! Like the energizer bunny, the labor market and the overall economy continued their forward momentum this quarter, even in the face of some startling headlines. The bank “crisis” that reared its ugly head in early March caused investors to take a pause...for just a moment. Among the many rolling impacts from the reversal of easy money policies in the post-pandemic world, the failures of Silicon Valley and Signature Banks shocked the markets and caused the government to backstop depositors, at least for the time being. In spite of that, the markets finished the quarter on a strong note, and we will have to wait a bit longer to see if the widely predicted recession of 2023 actually comes to fruition.

### 1st Quarter Highlights

- Stocks started and finished the quarter strongly. The S&P 500 Index of large U.S. companies ended the quarter up 7.5%. Non-U.S. developed stocks performed even better, rising 8.5%, as measured by the MSCI EAFE Index.
- The Russell 2000 Index of small U.S. stocks increased only 2.7% having outperformed other groups during the downturn of 2022.
- The growth sector of the market saw a resurgence in the first quarter after a tumultuous 2022. The Vanguard Growth Index finished the quarter up 17.3% as investors regained confidence in technology names. The Vanguard Value Index, by contrast, was down 1.0%.
- Bonds, having suffered the worst annual performance in modern history during 2022, rebounded modestly as yields declined. The Bloomberg Aggregate Bond Index increased 3.0% for the first three months, and the 10-Year U.S. Treasury yield finished the quarter at 3.6%.
- By far the most interesting development of the 1<sup>st</sup> quarter was the failure of two banks due to poor asset/liability management. Silicon Valley Bank and Signature Bank each experienced a flight

of deposits with no method to fund them other than selling fixed income instruments at large losses. Unlike many other regional institutions, these banks held a large percentage of uninsured deposits that had flooded in during the last several years.

- Although the offending banks seem to have their own idiosyncratic issues, the broader regional bank indexes suffered losses in the first quarter as investors questioned whether other institutions would also experience deposit flights. The iShares Regional Bank Index declined 24.4% for the first three months of 2023.
- Meanwhile, inflation continues to ease. The Consumer Price Index (CPI) showed growth of 6.0% in February compared with the prior year, down from a reading of 8.9% last June, but still historically high.
- The Federal Reserve remains on the hot seat as they attempt to grapple with inflation that is slowly moderating and an economy that appears to be very resilient. The Unemployment Rate remained low, at only 3.6% as of February, and consumers appear willing to continue their recent spending trends even in the face of increasing layoffs at many companies.
- Corporate earnings and the health of the consumer will be in focus as we move into the second quarter.

## Three Big Things

Here we review some emerging trends that may be important for investors and their portfolios. We show recent trends in the growth of Money Supply, the current state of market volatility, and some perspective on the size of Silicon Valley Bank.

### The Money Supply

Money supply can be thought of as the total amount of money in circulation for an economy. In theory, the more funds that are available in an economy the more we can see upward pressure on prices as those excess funds chase a limited supply of goods. We have seen steady growth in the money supply over the last few decades, but we saw an enormous spike during the pandemic. In the latest Fed tightening cycle we have seen the money supply shrink dramatically, which appears to be having the desired impact on inflation. The recent year over year decline is reminiscent of the Volker years of the late 1970s / early 1980s.



Source: Federal Reserve Bank of St. Louis, Real M2 Money Stock [M2REAL], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/M2REAL>.

## Market Volatility

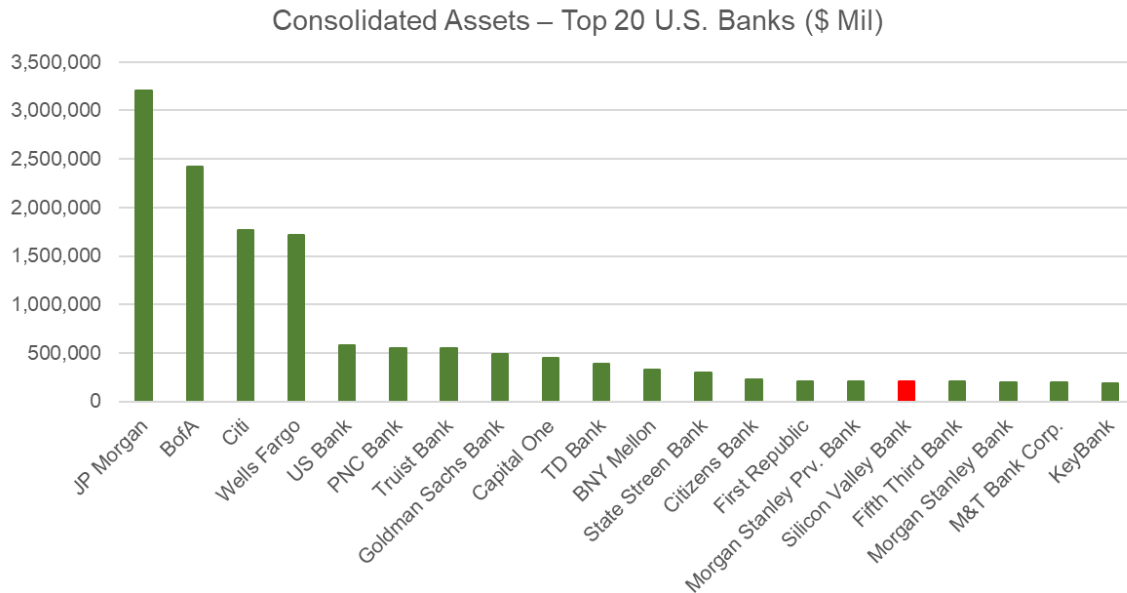
The Chicago Board Options Exchange Volatility Index can be used to measure the volatility of the large cap U.S. stock market. We can see that while volatility ticked upward during the uncertainty of 2022, it has calmed considerably even in the face of the recent events in the banking sector. Note the extreme movement during the panic in the early days of the COVID pandemic.



Source: Chicago Board Options Exchange, CBOE Volatility Index: VIX [VIXCLS], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/VIXCLS>.

## Silicon Valley Perspective

The headlines of late have been focused on the trials of several regional banks, and speculation abounds about the health of the remaining regional bank sector. The chart below provides a look at the assets of the top 20 U.S. banks. Silicon Valley Bank, the nation's 16<sup>th</sup> largest, appears to have suffered from its own issues of financial mismanagement.



Source: Federal Reserve Statistical Release, December 2022.

Your quarterly performance report has now been posted to Tamarac, our portal and portfolio reporting tool at Garde Capital. Tamarac can be found under the *Portal Login* link in the upper right hand side of our website or by clicking [here](#). Once on the site, click on *Documents / Vault* and you will find your report along with other wealth management resources. Please let us know if you need assistance accessing or reading your reports.

We look forward to the opportunity to review your wealth management plan in the coming months. As always, please do not hesitate to reach out to us at any time.

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