WEEKLY MARKET UPDATE | MAY 5, 2023

# The Fed and banks redux.

**The economy**

- U.S. equities lost ground during the week ending May 5, as investors closely scrutinized the U.S. Federal Reserve's (Fed) statements after the central bank implemented another increase in its benchmark interest rate. Additionally, there was a selloff in bank stocks—particularly shares of regional banks—amid renewed concerns about the financial stability of the sector.
- The Fed raised the federal-funds rate by 25 basis points (0.25%) to a range of 5.00%-5.25% on Wednesday of this week—the central bank's tenth increase since it began its rate-hiking cycle to combat inflation in March 2022. In a statement announcing the rate hike, the Federal Open Market Committee (FOMC) commented that "[we] will closely monitor incoming information and assess the implications for monetary policy. In determining the extent to which additional policy firming may be appropriate to return inflation to 2 percent over time, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments." Regarding concerns about the stability of the banking sector, the Fed stated: "The extent of these effects remains uncertain. The Committee remains highly attentive to inflation risks."
- Some interpreted the language in the FOMC's statement as an indication that the central bank was giving itself the flexibility to pause its rate-hiking cycle at its June meeting. During a news conference following the FOMC meeting, Fed Chair Jerome (Jay) Powell acknowledged that FOMC members "did talk about pausing, but not so much at this meeting. We feel like we're getting closer or maybe even there." He also commented that the FOMC participants "have a view that inflation is going to come down not so quickly. In that world, if that forecast is broadly right, it would not be appropriate to cut rates, and we won't cut rates."
- At the beginning of the week, U.S. regulators took control of California-based First Republic Bank. The California Department of Financial Protection and Innovation issued a statement announcing that it had taken over the bank and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver. The FDIC subsequently accepted J.P. Morgan Chase Bank's bid "to assume all deposits, including all uninsured deposits, and substantially all assets of First Republic Bank." Later in the week, shares of regional banks plunged amid investors' rising anxiety over concerns about the potential for additional bank failures.
- Smaller banks are struggling financially after the Fed's rate hikes over the past 14 months have significantly reduced the value of their bond holdings, resulting in estimated unrealized losses totalling $1.8 trillion. In an interview with Bloomberg, Jim Smigiel, SEI's chief investment officer, said, "We're having the latest flare-up in what is slowly becoming a crisis of confidence in the regional-banking sector here in the United States." However, Smigiel doesn't see similarities between the current situation and the Global Financial Crisis of 2007-2008. "Some of the differences are obvious; that was a credit crisis, this is not a credit crisis," he commented. "This is more of an asset-liability management issue and, of course, some of the ancillary effects of hiking interest rates 500 basis points in a very, very short period of time. But it doesn't take away from the fact that this is the market testing the weakest hands in the sector and really continuing to do that as we're seeing today."
- The Department of Labor reported that U.S. payrolls expanded by 253,000 in April, up from 236,000 in March. The unemployment rate dipped 0.2% to 3.4%. The professional and business services, health care, and leisure and hospitality sectors saw the largest employment gains in April. Despite the greater-than-expected growth in payrolls in April, the total lagged the 400,000 monthly average job gains for the 2022 calendar year. Average hourly earnings rose 0.5% during the month and 4.4% year-over-year. The 12-month increase was modestly higher than the 4.2% annual rise in March.

**Stocks**

- Global equities closed down for the week. Emerging markets fared better than developed markets.
- U.S. equities recorded negative returns. Information technology and health care were the top performers, while financials and energy lagged. Growth stocks led value, while small caps outperformed large caps.

**Bonds**

- The 10-year U.S. Treasury note yield stayed flat during the week.
- Global bond markets advanced for the week.
- Government bonds led the markets, followed by corporate bonds and high-yield bonds.

| The Numbers as of May 5, 2023 | 1 Week | YTD | 1 Year | Friday's Close |
|---|---|---|---|---|
| **Global Equity Indexes** | | | | |
| MSCI ACWI ($) | -1.8% | 6.3% | -1.1% | 643.3 |
| MSCI EAFE ($) | -0.6% | 9.6% | 6.9% | 2130.6 |
| MSCI Emerging Mkts ($) | -0.1% | 2.1% | -7.8% | 976.4 |
| **US & Canadian Equities** | | | | |
| Dow Jones Industrials ($) | -1.2% | 1.6% | 2.0% | 33674.4 |
| S&P 500 ($) | -0.8% | 7.7% | -0.3% | 4136.3 |
| NASDAQ ($) | 0.1% | 16.9% | -0.7% | 12235.4 |
| S&P/ TSX Composite (C$) | -0.5% | 6.0% | -0.7% | 20542.0 |
| **UK & European Equities** | | | | |
| FTSE All-Share (£) | -1.0% | 4.1% | 2.3% | 4242.4 |
| MSCI Europe ex UK (€) | -1.3% | 9.9% | 7.0% | 1628.6 |
| **Asian Equities** | | | | |
| Topix (¥) | 0.9% | 9.7% | 9.3% | 2075.5 |
| Hong Kong Hang Seng ($) | 0.8% | 1.4% | -3.6% | 20049.3 |
| MSCI Asia Pac. Ex-Japan ($) | 0.1% | 1.8% | -6.9% | 514.9 |
| **Latin American Equities** | | | | |
| MSCI EMF Latin America ($) | -2.0% | 2.7% | -3.1% | 2185.5 |
| Mexican Bolsa (peso) | -0.3% | 13.4% | 8.8% | 54961.7 |
| Brazilian Bovespa (real) | 0.7% | -4.2% | -0.2% | 105123.0 |
| **Commodities ($)** | | | | |
| West Texas Intermediate Spot | -7.1% | -11.1% | -34.1% | 71.3 |
| Gold Spot Price | 1.3% | 10.6% | 7.5% | 2017.2 |
| **Global Bond Indices ($)** | | | | |
| Barclays Global Aggregate ($) | 0.4% | 3.9% | -1.1% | 463.3 |
| JPMorgan Emerging Mkt Bond | 0.1% | 2.9% | 0.9% | 790.6 |
| 10-Year Yield Change (basis points*) | | | | |
| US Treasury | 0 | -45 | 39 | 3.43% |
| UK Gilt | 6 | 11 | 181 | 3.78% |
| German Bund | -2 | -28 | 125 | 2.29% |
| Japan Govt Bond | 3 | 0 | 19 | 0.42% |
| Canada Govt Bond | 6 | -40 | -12 | 2.90% |
| **Currency Returns**** | | | | |
| US$ per euro | 0.0% | 2.9% | 4.5% | 1.102 |
| Yen per US$ | -1.1% | 2.8% | 3.6% | 134.85 |
| US$ per £ | 0.5% | 4.6% | 2.2% | 1.264 |
| C$ per US$ | -1.3% | -1.3% | 4.3% | 1.338 |

Source: Bloomberg. Equity-index returns are price only, others are total return.

*100 basis points = 1 percentage point.

**Increases in U.S. dollars (USD) per euro or pound indicate a decline in the value of the USD; increases in yen or Canadian dollars per USD indicate an increase in the value of the USD.

# Important information

Index returns are for illustrative purposes only and do not represent actual investment performance. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged, and one cannot invest directly in an index. Past performance does not guarantee future results.

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