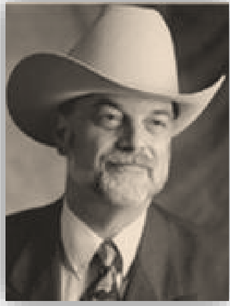

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TPWC Market and Economic Update

The Markets

For anyone who has been following the financial and economic news for the week that ended on March 17, it may come as quite a shock to discover that the Standard and Poor's 500 Stock Index (SPX), representing the whole stock market, *rose* 1.43% to end the week at 3916.64. While 3916 is not up to the 4000 level it is closer than last week's 3862. This week leaves the SPX up a bit over 2% this year, 9.33% higher than last October, and 75% higher than it was three years ago in the Pandemic Bear Market. Still, on the negative side of things, the Index is 18% lower than it was in the first week of 2022. The CRSP U.S. Mid Cap Value Index did not follow its older and larger cousin, falling 3.26% for the week to 2206.24, and is now down 5.7% this year and 15% from last year's high.

The benchmark 10-year U.S. Treasury note yield slipped to 3.39% from the nearly 4% yield it held a couple of weeks ago. Perhaps more significantly, the shorter-term rates at 6-months and 1-year fell to 4.71% and 4.26% respectively from their highs of around 5.2% at the beginning of March. Unfortunately for those looking for a return to a more normal yield curve, the 30-year T-bond fell to 3.6% leaving the Treasury yield curve as inverted as ever. West Texas Intermediate crude oil (WTI) continued its slide, slipping 13.43% to $66.33 per barrel, again pointing the way to lower pump prices in the days ahead. It is worth remembering at this point that WTI was selling for about $112 per barrel a year ago and hit $120 in June of last year. This week's price is approaching a 50% drop in the price of oil from its highs last year.

The Economy

The attention that had been focused on the Federal Reserve and speculation on what it will do with interest rates shifted, at least for the moment, to the banking sector of both the U.S. and world economies. The Silicon Valley Bank (SVB) failure, followed almost immediately by that of Signature Bank dragged up memories of 2008 and the banking crisis that followed the failure of first AIG, then Lehman Brothers, and then the series of investment banks that had to receive some form of emergency support. Those of us with longer memories shuddered at the memories of the Savings and Loan Crisis of the late 80's and early 90's and the long series of bank failures that followed. Fortunately, the events of the past week or so bear little resemblance to either of those. The Savings and Loan Crisis was all about banks making loans for real estate development companies which collapsed as developers built more commercial real estate than there were commercial renters to occupy it. The 2008 Crisis was again a direct result of unbridled real estate speculation coupled with some unsavory mortgage lending practices.

SVB failed for a much more prosaic reason. The proprietors took in huge deposits from Silicon Valley startups. SVB offered a better interest rate than many other banks as they invested their deposits in long-term Treasuries at about 3% and were able to pay depositors 1%. Unfortunately, 2022's rising interest rates both largely blocked the flow of new money into startups, and seriously reduced the market value of those long-term Treasuries. As SVB began to sell Treasuries to pay their depositors, a Twitter-based prediction of failure caused a classic run on the bank. No bank can survive such an event, and SVB went down. When Signature Bank was taken over by the FDIC following the beginning of a bank run there, it had significantly more assets than deposits, but was forced down by panicked depositors. Signature Bank may have been targeted because of its widely publicized willingness to accept cryptocurrency deposits but again, a Twitter-based panic was the issue.

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The next event in this mini-bank crisis of 2023 was the announcement that the FDIC would underwrite and cover all deposits at both banks. That reduced the panic but simultaneously, First Republic Bank saw the start of a Twitter inspired depositor run on the bank despite it being in sound financial condition. Several major banks came to its rescue, probably at the Fed's strong suggestion. What all those banks had in common was that most of their depositors were extremely wealthy and had far more in the bank than the FDIC would nominally cover.

The big fish in this event was not a U.S. Bank but rather Credit Swisse, a 167-year-old Swiss bank and one of the world's largest banks that had to be rescued by the Swiss government this week and will probably be absorbed by another European bank in the days to come. The issue there was a series of apparent moral lapses combined with the same assumptions that were present at SVB. It is anything but pleasant to note that the problems we are seeing appear to be global. Bad assumptions about interest rates and "safety" are the common denominator to every financial crisis.

The silver lining is that the U.S. Banking system is, as Secretary Yellen stated, in good financial condition. More, the swift action by the Treasury, the Federal Reserve, and the FDIC appears to have stopped the Twitter-ignited brushfire. One potential positive is that the mini crisis may well slow the Federal Reserve's near-term interest rate increases. As we have said and written before though, it may be wise to take a long, hard look at where you have stashed "safe" money, particularly if the institution to which you have entrusted your wealth got you there by promising a "guaranteed" higher rate that you could get elsewhere.

Until next week, we reiterate our pledge to do our best to do our duty to God, Country, our loyal Clients and to fight continually for the Fiduciary Way!

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