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Market Stats & Commentary

Market Vital Signs as of 3/31/2023

Stock Indexes	March	YTD	1 Year
S&P 500	3.67%	7.50%	-7.73%
Dow Jones Industrial Average	2.08%	0.93%	-1.98%
NASDAQ Composite	6.69%	16.77%	-14.05%
Russell Mid Cap Index	-1.53%	4.06%	-8.78%
Russell 2000 Small Cap Index	-4.78%	2.74%	-11.61%
MSCI EAFE Developed Int'l Index	2.48%	8.47%	-1.38%
MSCI Emerging Markets Index	3.03%	3.96%	-10.70%
Bond Indexes			
BBgBarc US Aggregate Bond Index	2.54%	2.96%	-4.78%
BBgBarc US Corp High Yield Bond Index	1.08%	3.58%	-3.29%
Interest Rates	3/31/23	12/31/22	2/28/2022
Fed Funds Target Range	4.75% - 5.00%	4.25-4.50%	0.00%
10 Yr U.S. Treasury Rate	3.49%	3.84%	2.32%

Data courtesy of Raymond James

Given the issues with the regional banks in mid March, I didn't expect monthly returns to look quite this good. I think this drives home just how important interest rates are to the market. The two bank failures, along with the fear of a domino effect, causing a flight to safety which pushed Treasury prices higher and interest rates lower. Amidst all the noise in markets during March, it was interest rates that drove the final outcome.

International markets also finished the month strong, getting a lot of help from the weakness in the dollar from falling interest rates. There have not been many quarters over the last few years where the MSCI EAFE (developed international index) has outperformed US indexes, so I will be watching to see if it is just a blip on the radar or the beginning of a longer term trend. My guess is blip on the radar but only time will tell…

Bond indexes were also decidedly positive for March due to falling interest rates. Given the historically miserable year bonds had in 2022, I would assume there is more room for gains there over the course of 2023.

I Heard That the Fed Raised Interest Rates, But You're Saying That Market Rates Have Gone Down?

I have gotten this question a lot over the last couple weeks and it is a completely sensible question to ask. Hopefully the following paragraphs help clear things a bit.

The Fed Rate

First off, let's clarify what rate it is that is raised or lowered by the Federal Reserve. The rate the Fed controls and moves around is the overnight inter-bank lending rate known as the fed funds rate. This is the rate banks charge each other to borrow money overnight within the Fed system. It is an active and liquid lending market and allows banks to maintain proper amounts of cash and capital after the inflows and outflows from each business day. You may be thinking – that's nice – good for them – but why would that affect markets and the economy so much?

The answer is that the US prime rate is based off the overnight rate. Normally the prime rate is fed funds plus 3%. So if fed funds is 5%, prime will be 8%. The prime rate is used as a base rate for numerous varieties of commercial and consumer lending and thus has a big influence. So when the Fed raised the overnight rate yet again in March, it

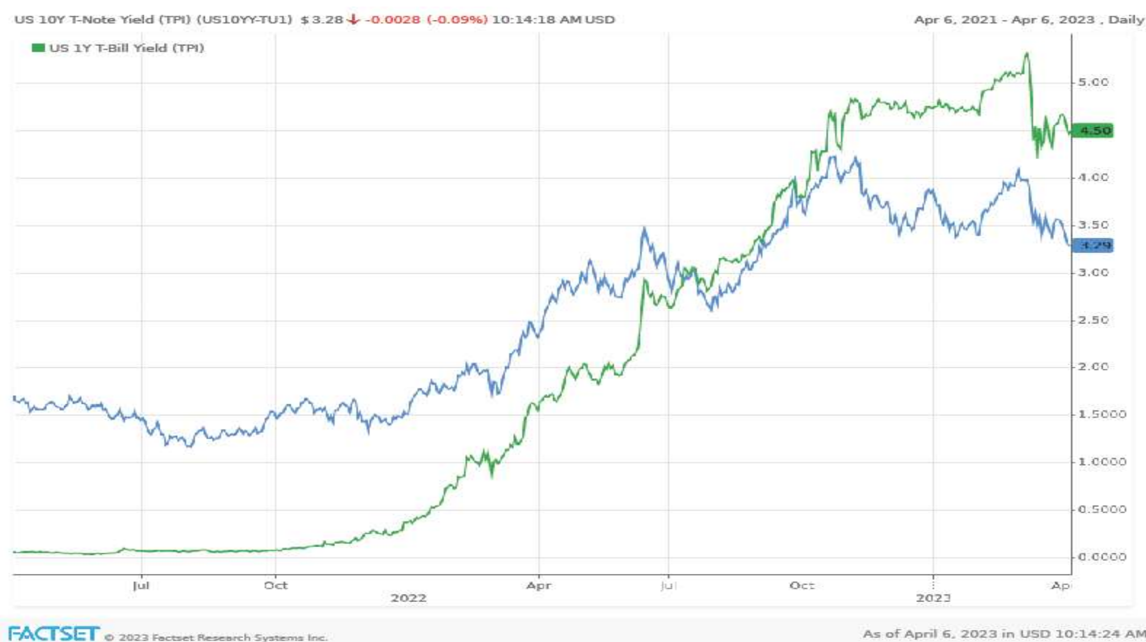
effectively raised the prime rate as well. This will make new loans and existing variable rate loans (credit cards, home equity loans, etc) more expensive.

Market Rates

While the Fed and the prime rate are vastly important to the real economy, most market participants tend to focus on where interest rates are for US Treasury bonds. The rates for bonds all around the world are based off what US Treasury bonds yield. Treasury rates are also the main driver of the exchange rate between the US dollar and every other currency. These factors make the market for US Treasury bonds the largest and most liquid market on the planet and the buying and selling creates a market rate the same way the buying and selling of a stock creates a market price.

The Treasury market is also viewed from a time perspective based on the length of time to maturity. The maturities start at 90 day and go all the way out to 30 years. **However, investors (yours truly included) are normally fixated on the 10 year US Treasury rate**. The shorter dated maturities tend to be more influenced by what the Fed does because the timeframes (overnight to 90 day to 2 year) are relatively close together. However, the farther you go out on the maturity date the less influence the Fed has.

It is now important to point out all the rates of different maturities do not necessarily move in sync. The 2 year Treasury can trade very differently than the 10 year Treasury, which can trade differently than the 30 year Treasury. The 10 and 30 year rates are much more a reflection of how investors feel about the economy and long term inflation than what the Fed is doing that month. Notice the difference in the changes of the 1 year Treasury rate and 10 year Treasury rate over the last two years. The 1 year rate is represented by the green line and the 10 year rate is represented by the blue line.



As you can see, both rates moved up over 2022 but the slopes of the lines are quite different. The 1 year rate started out much lower but rose much quicker than the 10 year. Also notice that the 10 year rate started trending down in October 2022 while the 1 year rate stabilized before a quick whipsaw higher then lower.

The big drop you see in March is a result of the issues in the banking sector and happened even as the Fed raised the overnight rate by .25%. **Market rates went *down* at the same time the Fed rate went *up***.

The main takeaway I hope you get from all this is that the Treasury rates which investors focus on are affected by what the Fed does, but once you get outside the 2 year range the rates are much more a reflection of market pricing than Fed policy. The Treasury market currently reflects the belief that the high short term rates we are seeing are temporary in nature rather than a reversion to the rates seen in the 1980's and 1990's. If correct, this is a positive for both stock and bond prices going forward.

David

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Investing involves risk and you may incur a profit or loss regardless of strategy selected. Past performance does not guarantee future results. Future investment performance cannot be guaranteed, investment yields will fluctuate with market conditions. Prior to making an investment decision, please consult with your financial advisor about your individual situation.

Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary.

Index Descriptions

S&P 500: Representing approximately 80% of the investable U.S. equity market, the S&P 500 measures changes in stock market conditions based on the average performance of 500 widely held common stocks. It is a market-weighted index calculated on a total return basis with dividend reinvested.

Dow Jones Industrial Average Total Return: The Dow Jones Industrial Average is a composite of 30 stocks spread among a wide variety of industries, such as financial services, industrials, consumer services, technology, health care, oil & gas, consumer goods, telecommunications, and basic materials. The index represents approximately 23.8% of the U.S. market, and is price weighted (component weightings are affected by changes in the stocks' prices). Maintained by the Averages Committee, components are added and deleted on an as-needed basis.

Russell Midcap: A subset of the Russell 1000 index, the Russell Midcap index measures the performance of the mid-cap segment of the U.S. equity universe. Based on a combination of their market cap and current index membership, includes approximately 800 of the smallest securities which represents approximately 31% of the total market capitalization of the Russell 1000 companies. The index is created to provide a full and unbiased indicator of the mid-cap segment.

Russell 2000: Based on a combination of their market cap and current index membership, this index is comprised of approximately 2,000 of the smaller securities from the Russell 3000. Representing approximately 10% of the Russell 3000, the index is created to provide a full and unbiased indicator of the small cap segment.

MSCI EAFE (Europe, Australasia, Far East) Index: A free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada. As of June 2, 2014, the index consists of 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom.

MSCI Emerging Market Index: A free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. As of June 2, 2014, the index consists of the following 23 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey, and the United Arab Emirates.

Bloomberg Barclays U.S. Aggregate (BCAG): A representation of SEC-registered, taxable, and dollar denominated securities. The index covers the U.S. investment grade fixed rate bond market, with index components for asset-backed securities, government and corporate securities, and mortgage pass-through securities. Must be rated investment grade (Baa3/BBB- or higher) by at least two of the following rating agencies: Moody's, S&P, Fitch; regardless of call features have at least one year to final maturity, and have an outstanding par value amount of at least $250 million.

Bloomberg Barclays U.S. Corporate High Yield: Covers the universe of fixed rate, non-investment grade debt which includes corporate (Industrial, Utility, and Finance both U.S. and non-U.S. corporations) and non-corporate sectors. The index also includes Eurobonds and debt issues from countries designated as emerging markets (sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody's, S&P, and Fitch) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, 144-As and pay-in-kind bonds (PIKs, as of October 1, 2009) are also included. Must publicly issue, dollar-denominated and non-convertible, fixed rate (may carry a coupon that steps up or changes according to a predetermined schedule), and be rated high-yield (Ba1 or BB+ or lower) by at least two of the following: Moody's, S&P, and Fitch. Also, must have an outstanding par value of at least $150 million and regardless of call features have at least one year to final maturity.