Weekly Wire

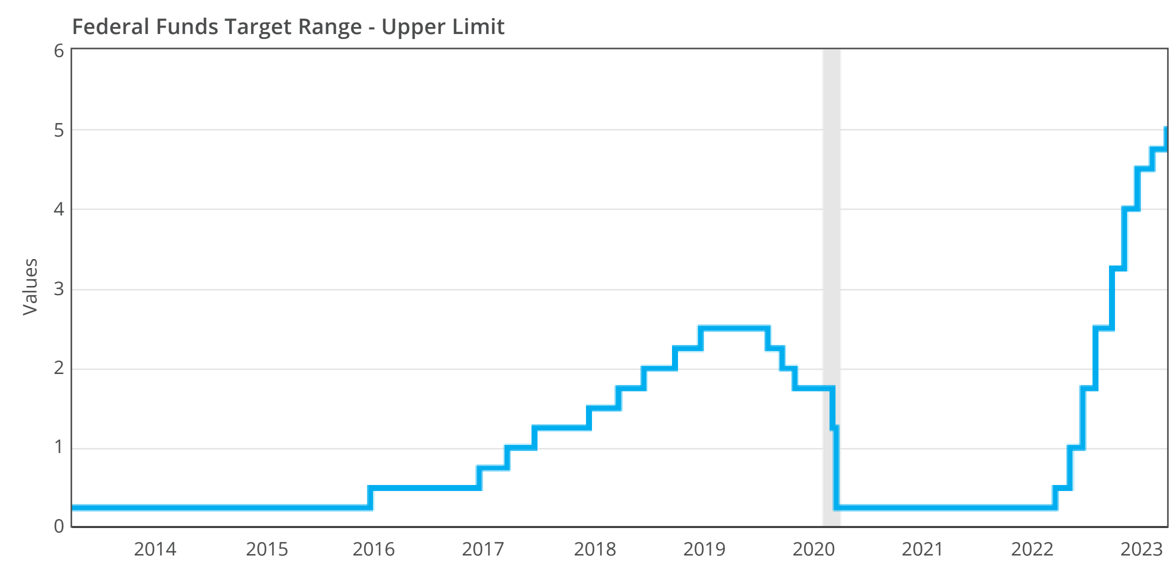
MARCH 27, 2023

Is the Fed Finished?

Last week the Federal Reserve raised the Fed Funds Rate by 25 bps, to a range of 4.75% on the lower end and 5.0% on the upper end (see chart), the ninth interest rate increase of the current rate hiking cycle, and an increase that took the Fed Fund's Rate to its highest level since 2007. Despite the market volatility of late, there wasn't that much doubt going into the March meeting as to where the Fed Fund's Rate would land coming out of the March meeting.

The same really can't be said about the path forward for monetary policy, at least as of today; based on the latest Summary of Economic Projections – often referred to as the Fed's Dot Plot – our central bank is expecting one more rate hike this cycle, taking the Fed Fund's Rate to a terminal level of 5.0% to 5.25%. That said, the Fed has also acknowledged that the travails of the banking system – here at home and increasingly, it seems, in Europe – have created tremendous uncertainty for the financial system specifically and the real economy generally. Said differently, the Fed thinks it needs to raise rates by another 25bps, but it's really not so sure it should. And further reflecting the uncertainty around the path forward for monetary policy, Wall Street, at least as of today, doesn't see the Fed raising rates again this cycle, pricing in no change to the Fed Funds Rate at the bank's May meeting and pricing in a 25 bps rate cut at the bank's June meeting.

The Fed has an unenviable job – trying to solve for price stabilityand full employment for the world's largest and most important economy with every decision it makes second-guessed on Wall Street, in Washington, DC, and in financial centers and political capitals around the globe. For our money, we think the Fed has likely done enough on the rate hiking front and we would be surprised if the next move for the Fed Funds Rate was higher and not lower.



Stocks, bonds, and commodities (3/24/2023)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	3970.99	3.42%	3.42%	-12.59%
MSCI AC World ex USA	289.15	2.79%	2.79%	-9.72%
MSCI EAFE	2017.13	3.77%	3.77%	-6.59%
MSCI EM	972.17	1.65%	1.65%	-13.59%
Bloomberg Barclays US Agg	91.55	3.00%	3.00%	-5.46%
Crude Oil WTI	69.20	-13.78%	-13.78%	-39.24%
Natural Gas	2.32	-43.49%	-43.49%	-58.67%

Treasury rates (3/24/2023)

	Price	Yield
2Y	101.1 / 101	3.775
3Y	102.2 / 102	3.581
5Y	102.2 / 102	3.413
7Y	103.2 / 103	3.401
10Y	101.0 / 101	3.374
30Y	99.17 / 99.1	3.648

Weekly reports

This week (3/27/2023)

- Jan FHFA Home Price Index
- Mar Chicago PMI SA

Week of 3/20/2022

- Fed Funds Target Upper Bound 5.0%
- Feb New Home Sales SAAR 640.0K

Source: Federal Reserve Bank of St. Louis

Brinker Capital Market Barometer

MARCH 2023

Equity markets couldn't continue the strong gains to start the year as global markets declined in February. Fixed income markets also saw losses as rates rose across the yield curve. The extremely hot January jobs number marked the year-to-date peak for risk assets. The Federal Reserve continues to stick to its hawkish tone, noting that further rate increases are needed and rates will need to remain higher for longer. The fourth-quarter earnings period all but wrapped up with fewer than average companies beating expectations and the first YoY decline in earnings since Q2 2020. While domestic earnings are under pressure, developed foreign markets managed a slight increase and have seen smaller downward revisions to future earnings estimates. The trend of lower inflation readings took a pause during the month as most data was slightly above expectations and led to a renewed fear that inflation may prove to be stickier than many hoped. The 2Y/10Y yield curve remains highly inverted and the 1-Yr Treasury yield crossed above 5% for the first time since 2007. Economic data during the month generally proved more resilient than some had feared. While this may put additional pressure on the Fed to destroy demand, recession fears continue to be kept at bay. The market environment remains highly uncertain, but the opportunity set for multi-asset class portfolios continues to expand on a forward-looking basis.

SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum			●		Six month returns remain positive despite the February pullback; choppy market environment persists
Trend			●		Markets remain above long term moving averages but are testing upward trend of shorter averages
Investor sentiment				●	Survey data bearish but off extremes; fund flows remain tepid
Seasonality				●	Strong January as well as 3rd year of presidential cycle tends to bode well for forward returns

INTERMEDIATE-TERM FACTORS (6-36 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Fiscal policy			●		Spending increases unlikely; debt ceiling debate bears watching
Monetary policy		●			While the pace of rate hikes has slowed, rhetoric from Fed remains fairly hawkish
Inflation		●			Negative January surprise drives importance of next few months in establishing inflation trend
Interest rate environment		●			Deep curve inversion signals growth warning; higher short term rates affecting cost of capital
Macroeconomic			●		Global PMIs show contraction; labor market strength continue despite slowdown/recession fears
Business sentiment		●			Business confidence measures remain subdued as a growth slowdown is expected
Consumer sentiment		●			Consumer sentiment has rebounded over the past few months but remains depressed
Corporate earnings			●		Q4 earnings were first YoY decline since Q3 2020; foreign earnings and revisions proving resilient
Credit environment				●	Level of credit spreads at or below long-term averages; defaults remain low; credit conditions modest

LONG-TERM FACTORS (36+ months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Valuation			●		U.S. equity valuations near long-term averages; overseas markets below average valuations
Business cycle			●		Q4 GDP came in higher than expectations but underlying components stoke slowdown fears
Demographics			●		Emerging markets possess more favorable trends overall than developed markets

866-BCI-3/27/23