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Market Update
(all values as of 03.31.2023)

Stock Indices:

Dow Jones	33,274
S&P 500	4,109
Nasdaq	12,221

Bond Sector Yields:

2 Yr Treasury	4.06%
10 Yr Treasury	3.48%
10 Yr Municipal	2.11%
High Yield	8.31%

YTD Market Returns:

Dow Jones	0.38%
S&P 500	7.03%
Nasdaq	16.77%
MSCI-EAFE	7.65%
MSCI-Europe	9.89%
MSCI-Pacific	3.61%
MSCI-Emg Mkt	3.55%
US Agg Bond	2.95%
US Corp Bond	3.50%
US Gov't Bond	3.16%

Commodity Prices:

Gold	1,977
Silver	24.01
Oil (WTI)	80.60

Currencies:

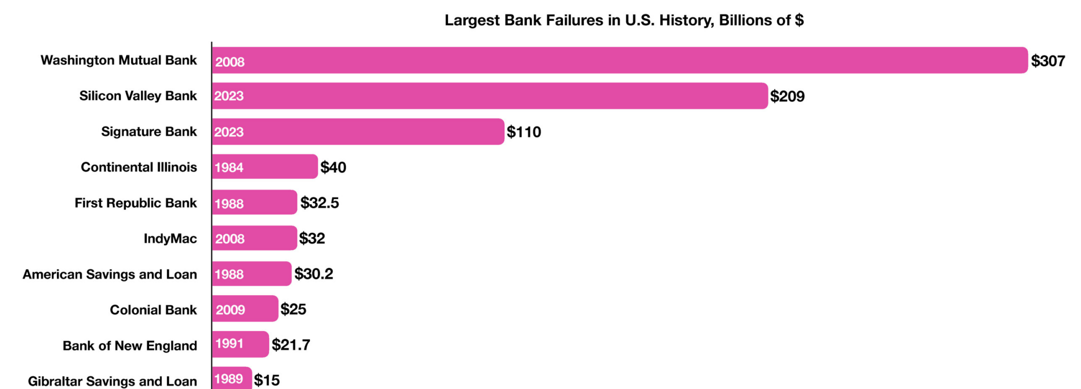
Dollar / Euro	1.08
Dollar / Pound	1.23
Yen / Dollar	132.60
Canadian /Dollar	0.73

Macro Overview

The failure of two regional banks unsettled equity and fixed-income markets globally in March. Financial contagion risks were at the forefront of the financial markets as the closure of Silicon Valley Bank (SVB) and Signature Bank fostered turmoil throughout the banking sector. The recent banking crisis may alter the Fed's rate increase trajectory, as various analysts believe that the Fed's rapid rate increases may have triggered the banking mayhem.

Various bank analysts believe that the recent 2023 bank failures are more centralized than widespread in the banking sector, different from the crisis in 2008 when numerous institutions were affected. What occurred in 2008/2009 was systemic, which means that there was a broad effect across many institutions with the same exposure to high-risk Mortgage Backed Securities (MBS). In 2008-2009, the losses in value were permanent losses as the high-risk borrowers defaulted on their mortgages and the underlying real estate declined in value. The current crisis is different as the assets owned by the banks are high quality US-government backed assets. Any losses in these bonds will be temporary.

Some economists are forecasting the likelihood of a heightened recessionary environment should additional banks fail an if the Fed continues to hike rates.(Sources: Bureau of Labor Statistics, Federal Reserve Bank of St. Louis, Federal Reserve Bank of New York, U.S. Treasury)



Banking Crisis of 2023

How did the US have a banking crisis when the economy and employment was stable? During Covid, the US Government and the Federal Reserve flooded the economy with money. Congress enacted the Paycheck Protection Program for businesses and Covid stimulus relief to individuals. These handouts were deposited in the banks. In general, banks lend out these deposits to make the spread between the deposit interest paid to depositors and the loan interest charged to borrowers. The deposits overwhelmed the banks who didn't make enough loans as the businesses and consumers didn't need the money. The banks instead purchased US Treasuries and federal-backed mortgages.

Fast forward to 2022, the Federal Reserve increased interest rates 4.5% in eleven months causing the US Treasuries and mortgages to lose value (temporarily). For example, a three-year US Treasury bill or government-backed mortgage yielding 1% on March 1, 2022 went down in value equal to the duration (3 years) times the rise in interest rates (4.5%), or approximately 13.5%. As this was happening, the depositors, again businesses and individuals, withdrew their deposits as they realized they could receive more interest in money market accounts than the banks were paying.

The deposits began to “walk” to other higher interest-bearing accounts. The banks lost 13.5% on low-risk, government-backed treasuries when the depositors decided to take their money elsewhere. The government handed out too much money in 2020 and raised interest rates too fast in 2022.

To make matters worse, when depositors of SVB learned of the large “paper” losses on the bank’s bond portfolio, there was fear regarding the solvency of the bank. Many SVB depositors were corporations with large balances far in excess of the $250,000 FDIC insurance limits. These large depositors caused a “run on the bank” as they rushed to remove their uninsured deposits. These demands for deposits forced SVB to sell some of its devalued bonds to generate cash. These realized losses further threatened the bank’s solvency and a vicious downward spiral ensued.

Demand For Treasuries Drives Rates Lower – Fixed Income Update

The bank failures in March caused increased demand for Treasury bonds as a safe haven. The surge in bond buying has driven bond prices higher and interest rates down. The flight to U.S. Treasury bonds drove bond yields down across fixed-income markets including the average rate for a 30-year conforming mortgage loan which fell to 6.32% on March 30th, a welcome drop for homebuyers nationwide. These lower interest rates should offset inflationary pressures and the stress on the banks. Lower interest rates and higher bond prices are the opposite of what caused the banks to fail.

The concern is that falling rates may also be indicative of a slowing economic environment, with a possible recession should economic activity significantly curtail. The Fed may or may not continue to “fight” inflation by raising rates, depending on economic data and how the bank crisis unfolds. There is a growing consensus that the Fed may be ready to halt raising rates because new data is showing that inflation is beginning to cool off. The Fed’s latest survey on the economy, the Beige Book, reported that overall loan demand is falling, bank credit standards are tightening and delinquency rates are edging higher. The survey also identified rising rates as a factor in diminishing loan quality as well as inhibiting consumer borrower sentiment.

(Sources: U.S. Treasury, FreddieMac)

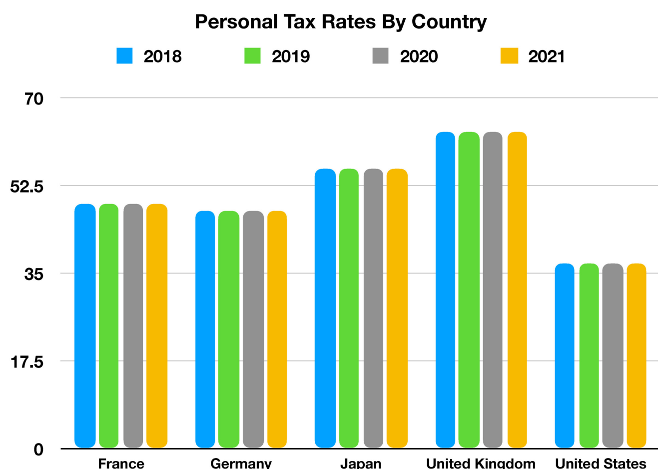
Bank Concerns Send Stock Volatility Higher – Domestic Equity Overview

Despite the bank failures in March, all three major equity indices posted positive returns for the first quarter of the year. The Dow Jones Industrial Average, S&P 500 Index, and the Nasdaq all saw upward trends towards the end of March. Volatility did rise in mid-March as banking turmoil spread throughout the equity markets. Financial and bank stocks saw the most volatility as concerns about contagion became an increasing focus. Companies that provide essential goods and services continue to be beacons for investors, as smaller technology and speculative stocks became undesirable with the bank failures.

(Sources: Dow Jones, S&P, Nasdaq, Bloomberg)

U.S. Taxes Lower Than Other Developed Countries – Taxation Overview

The notion that taxes in the United States are excessive compared to other countries, is somewhat misleading. Relative to other developed countries, the U.S. maintains some of the lowest tax rates globally. U.S. tax rates were much higher in the 1940s, reaching a top marginal tax rate of 94% in 1944, yet have fallen substantially over the decades in comparison to other countries.

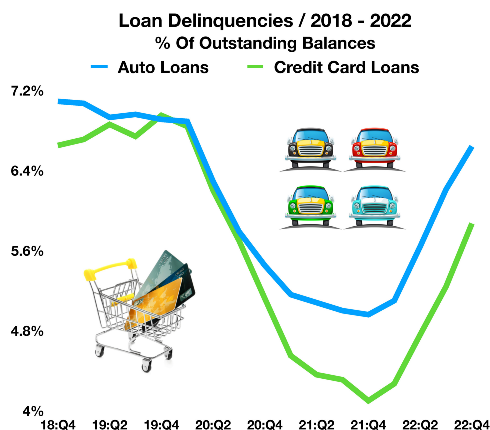


Since the Tax Cuts and Jobs Act of 2017, the top marginal federal tax rate in the U.S. is 37%, applying to incomes of over $578,125 for individuals and $693,750 for married couples filing jointly in 2023. In France, on the other hand, the top income tax rate currently reaches upwards of 45% for any individual earning €250,000 and 49% for individuals earning €500,000. In the UK, marginal income taxes can even reach 63.25% for certain individuals earning over £100,000. In Belgium, income taxes reach as high as 79.5%, more than double the highest marginal rates in the United States.

Another interesting note is that U.S. top marginal tax rates kick in at much higher incomes, with most European taxpayers paying the top marginal rate with incomes between €100,000 to €200,000. Across the board, the U.S. has lower income tax rates than its European counterparts. (Sources: OECD, Internal Revenue Service, Belgian General Administration of Taxation, HM Revenue & Customs, French Ministry of Finance)

Loan Delinquencies on the Rise – Consumer Credit

Following the 2008 financial crisis, consumers began defaulting on loans across the board. Since then, loan delinquencies have fallen steadily, with some dropping lower than half of their crisis peaks. However, recent data show that this trend has been reversing, with loan delinquencies on the rise throughout 2022. Economists closely follow delinquency rates as an indicator of possible faltering consumer finances.

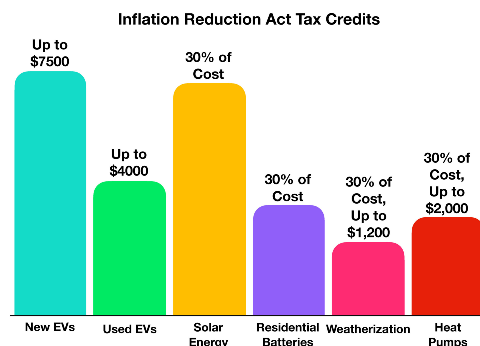


The two most significant increases in delinquencies have been with credit cards and auto loans. Auto loans headed into the end of 2021 with nine consecutive quarterly decreases, reaching as low as just 4.9%. However, they have since increased steadily up to 6.64% as of the fourth quarter of 2022. The current delinquency rate is nearly at a 3-year high. Credit card loans have also reached a 2.5-year high following two years of decreases in loan payment delinquencies, with current credit card delinquency rates at 5.87% of outstanding balances.

(Sources: Bureau of Labor Statistics)

Inflation Reduction Act Provides Tax Breaks For Environmentally Friendly Energy Projects – Taxpayer Focus

With Congress passing the Inflation Reduction Act (IRA) in 2022, consumers are expected to see new tax savings centered around environmentally-friendly energy. Throughout the ten-year plan, home renovations and upgrades are expected to generate savings for households.



The most significant of these credits is a 30% tax credit against federal income taxes for the cost of installing solar energy equipment. This credit has no limit, and 30% will apply regardless of the amount spent on installation. The credit will remain until the end of 2032, then decrease to 26% in 2033, 22% in 2034, and eventually phase out in 2035. Heat pumps are also receiving sizable incentives through the act. Low-income households will receive a rebate of 100% for the cost of a heat pump, while moderate-income households will receive 50% of the heat pump expense. Homeowners can qualify for a 30% tax credit up to $2,000 for home energy efficiency projects, which covers heat pumps. For weatherization, homeowners can receive a tax credit of 30% for up to $1,200 per year. For households installing residential batteries, a tax credit of 30% is available for the equipment and installation cost. (Sources: U.S. Congress, Internal Revenue Service, U.S. Department of Energy)

REAL ID Deadline Postponed Until 2025 – Travel & Regulations

The Department of Homeland Security has announced that it will extend the REAL ID full enforcement date back 2 years from the original date of May 3, 2023, to May 7, 2025.

This extension grants states the ability to work through the backlogs created by the COVID-19 pandemic. The additional time should allow states to complete the transition towards driver's licenses and identification cards that meet the security standards passed by the REAL ID Act.

The REAL ID Act, passed by Congress in 2005, established air travel security standards for state-issued identification cards, including driver's licenses. These standards include anti-counterfeiting technology, preventing insider fraud, and checking records to ensure people do not claim to be someone other than themselves. After the enforcement date in 2025, every traveler must have a REAL ID-compliant identification card to pass through security checkpoints for air travel.

Source: U.S. Department of Homeland Security

Market Returns: All data is indicative of total return which includes capital gain/loss and reinvested dividends for noted period. Index data sources; MSCI, DJ-UBSCI, WTI, IDC, S&P. The information provided is believed to be reliable, but its accuracy or completeness is not warranted. This material is not intended as an offer or solicitation for the purchase or sale of any stock, bond, mutual fund, or any other financial instrument. The views and strategies discussed herein may not be appropriate and/or suitable for all investors. This material is meant solely for informational purposes, and is not intended to suffice as any type of accounting, legal, tax, or estate planning advice. Any and all forecasts mentioned are for illustrative purposes only and should not be interpreted as investment recommendations.