

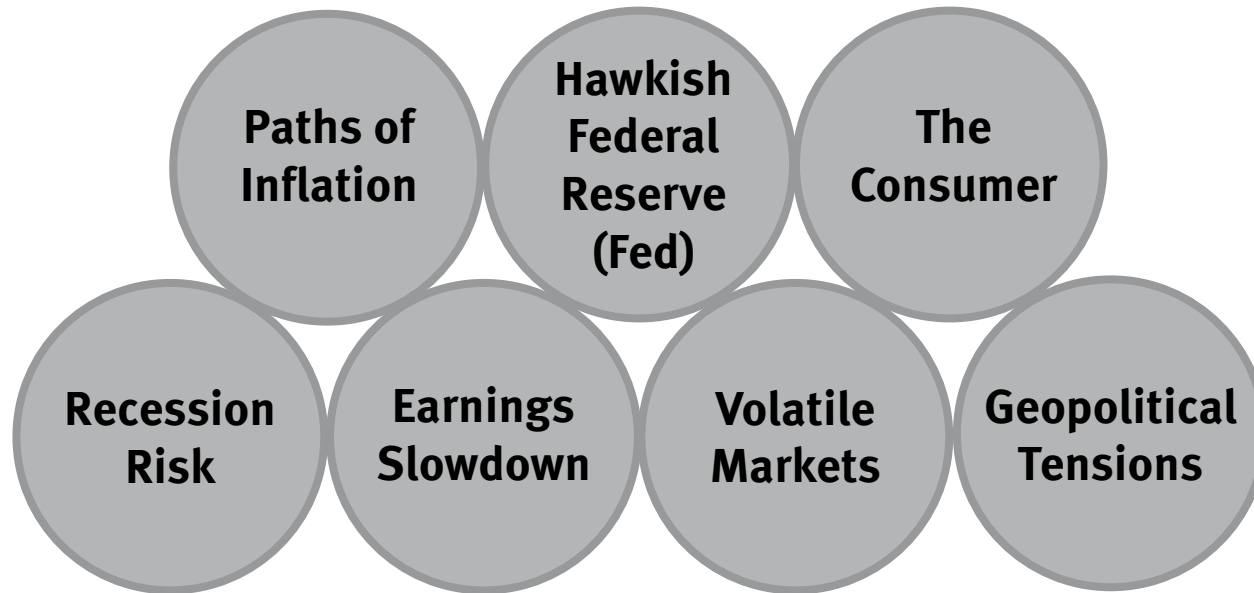
# STIFEL

**FAVORITE**

**15**

**April 2023**

Insights From Stifel's CIO Office

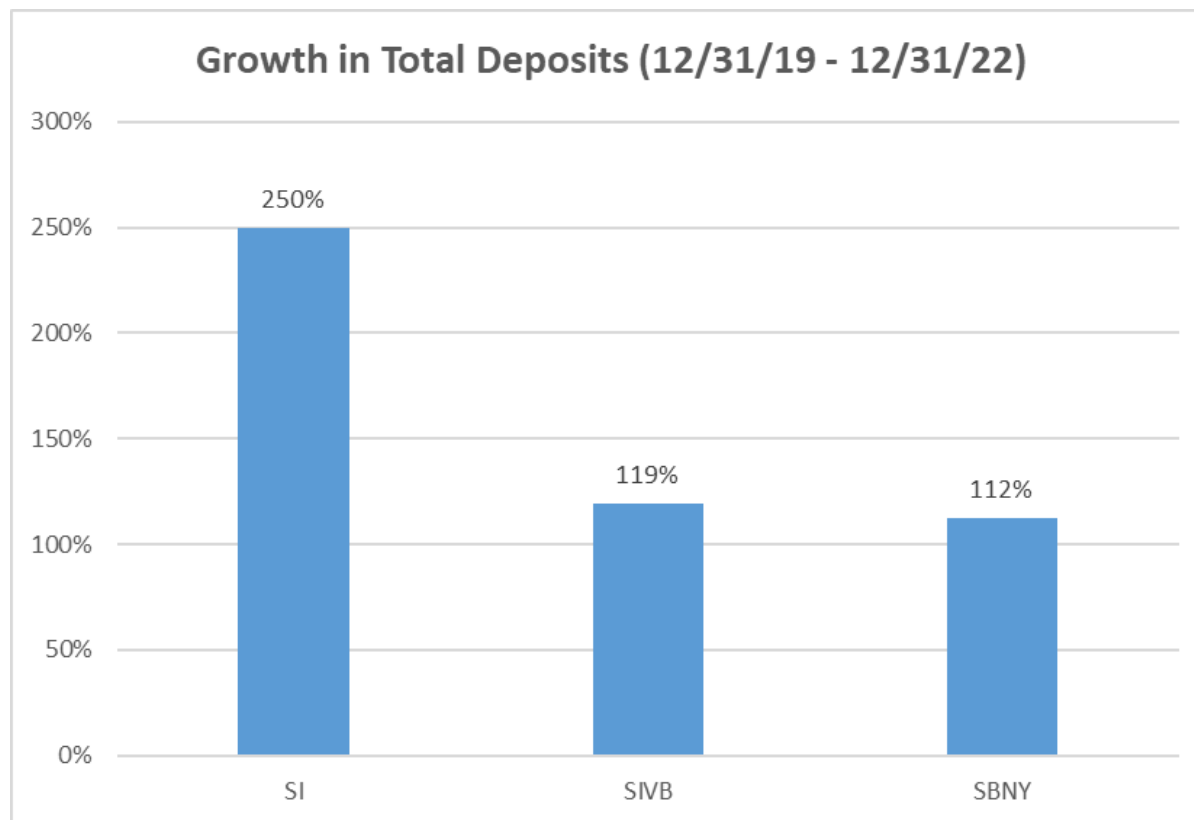


Replay – Client Webinar: An Update on the Banking Sector

Three banks grew rapidly, driven by crypto and tech.



SIGNATURE BANK®

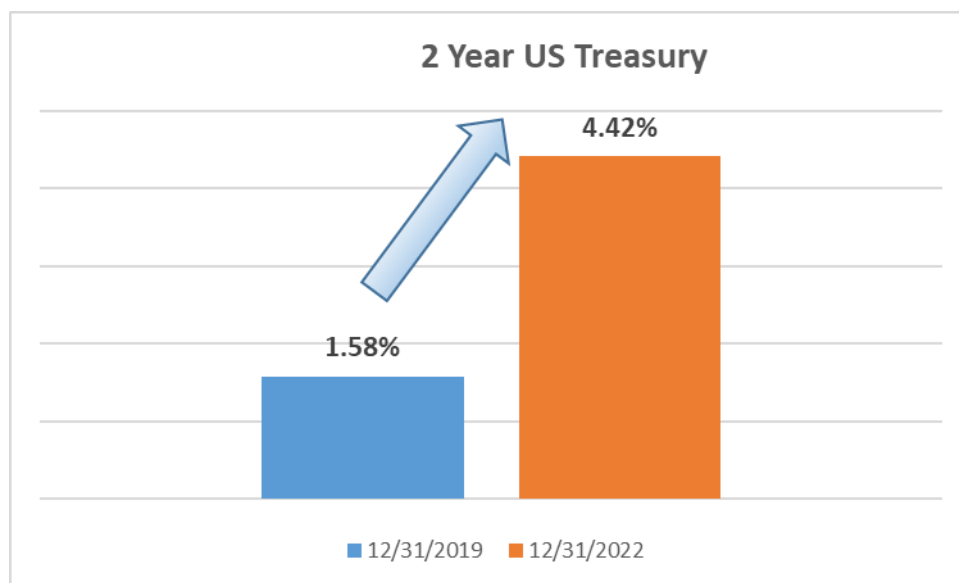


Replay – Client Webinar: An Update on the Banking Sector

Invested in fixed-rate, low coupon bonds, with escalating cost of deposits that are outflowing

Deposits

Higher  
Rate/Outflows



Bonds @ 2%  
(fixed, long duration)

Current value ~ 80-90c

### *Replay – Client Webinar: An Update on the Banking Sector*

- **Stepped in**
- **Limited to three banks**
- **Protected depositors**
- **Liquidity facility for other banks**
- **U.S. dollar swap agreements: from weekly to daily**



- Eleven banks deposited \$30 billion in First Republic Bank. Exploring more support.
- Federal government encouraging larger, stable banks to acquire smaller banks at risk.
- The Federal Home Loan Bank System issued \$304 billion in debt recently – providing liquidity to support regional and community banks.
- Credit Suisse first drew on a Swiss National Bank credit facility of 50 billion Swiss francs
- UBS to acquire Credit Suisse for more than \$3 billion, orchestrated by the Swiss government.



Source: Stifel CIO Office

	<u>10-year Yield</u>	<u>IG Spread</u>	<u>HY Spread</u>	<u>VIX Index</u>	<u>MOVE Index</u>	<u>Financial Conditions</u>
High	4.24	1.65	5.83	34.8	198.7	0.5
Median	3.45	1.38	4.49	23.8	125.1	(0.4)
Low	2.38	1.09	3.09	17.9	97.3	(1.3)
Current	3.47	1.38	4.55	18.7	135.9	(0.4)
% Tile	49%	51%	46%	97%	24%	50%
2/28/23	3.92	1.24	4.12	20.70	123.60	0.19
% Tile	12%	84%	80%	79%	56%	13%

Source: Stifel CIO Office via Bloomberg, as of March 31, 2023; based on last 12 months data.

Index	2020	2021	2022	Jan 2023	Feb 2023	Feb 28 – Mar 8 2023	Mar 8 – Mar 31 2023
S&P 500 Index	18.4%	28.7%	-18.1%	6.3%	-2.4%	0.6%	3.1%
S&P 500 Financials	-1.8%	34.9%	-10.6%	6.9%	-2.3%	-2.1%	-7.6%
KBW Regional Banking	-8.7%	36.7%	-6.9%	2.9%	0.5%	-5.0%	-16.5%
Russell 1000 Value	2.8%	25.1%	-7.6%	5.2%	-3.5%	-0.1%	-0.3%
Russell 1000 Growth	38.5%	27.6%	-29.1%	8.3%	-1.2%	1.2%	5.6%
NYSE FANG+ Index	103.1%	17.7%	-40.0%	18.7%	3.8%	0.6%	12.3%
Russell 2000 Index	19.9%	14.8%	-20.5%	9.7%	-1.7%	-0.9%	-3.9%
MSCI EAFE Index	7.8%	11.3%	-14.5%	8.1%	-2.1%	0.3%	2.2%
MSCI EM Index	18.3%	-2.5%	-20.1%	7.9%	-6.5%	1.5%	1.5%
Bloomberg U.S. Agg	7.5%	-1.5%	-13.0%	3.1%	-2.6%	-0.5%	3.1%



Source: Stifel CIO Office via Bloomberg, as of March 31, 2023



## Fed's Dual Mandate

### Price Stability: 2%

- Wage pressures subside
- Food/shelter/core goods prices ease
- Supply chain pressures ease
- Inflation expectations fall towards 2%
- Monthly Consumer Price Index (CPI) trends lower
- Monthly Personal Consumption Expenditures (PCE) trends lower

### Maximum Employment

- Job quits slow
- Initial jobless claims rise
- Unemployment to job openings ratio declines
- Unemployment above 4.4%
- Deep recession
- Severe financial conditions

## March 21/22 Fed Meeting

## Statement/Summary of Economic Projections:

- Noted the labor market remains “robust” and inflation elevated.
- “Recent developments are likely to result in tighter credit conditions for households and businesses and to weigh on economic activity, hiring, and inflation.”
- Noted strong capital and liquidity levels of the banking sector.
- The Fed hiked rates by 0.25%, signaled more may be appropriate.
- “The Committee will closely monitor incoming information and assess the implications for monetary policy.”
- Fed Summary of Economic Projections were roughly unchanged, signaling one more 0.25% move in 2023.

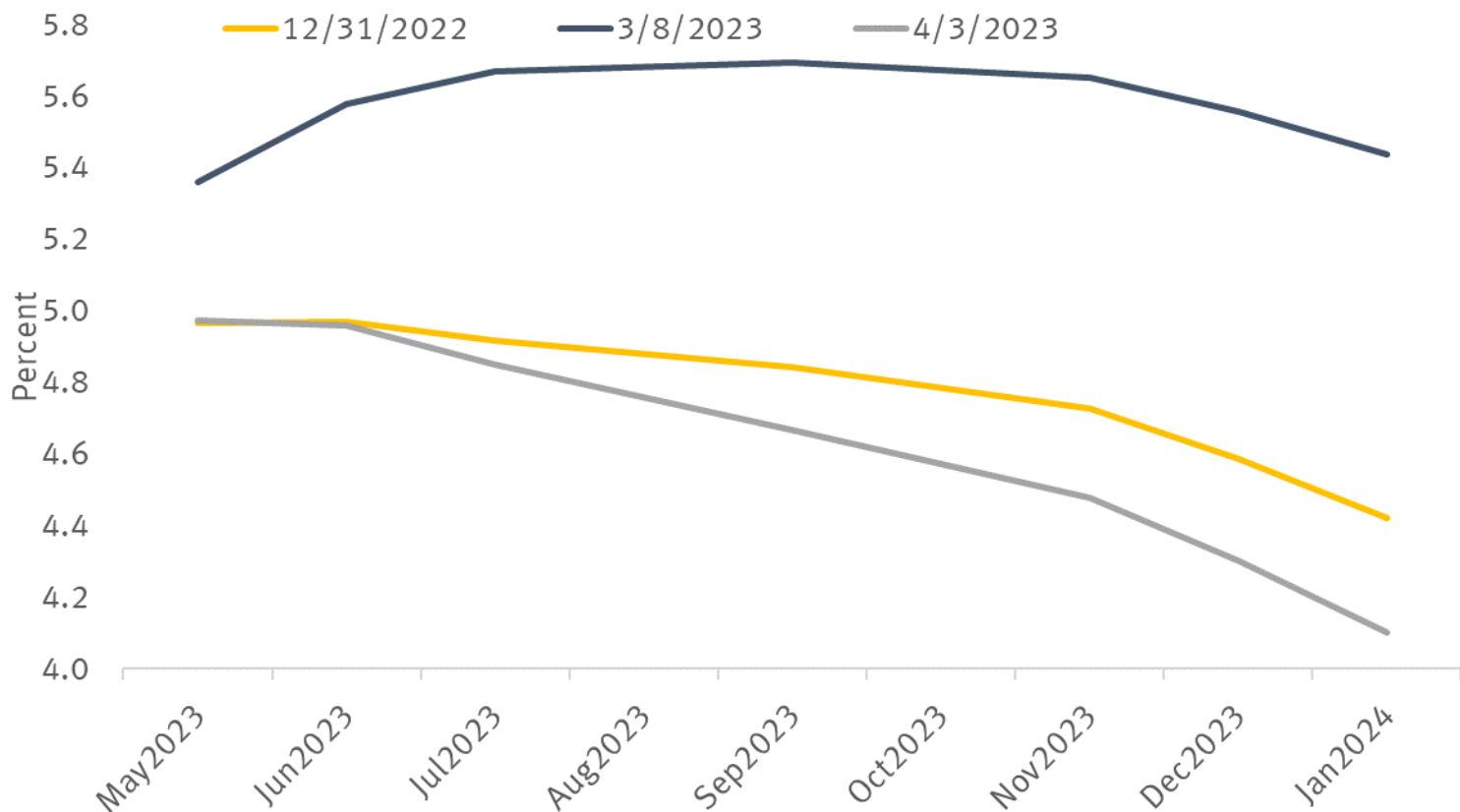
## Powell press conference:

- Important to focus on the words “**may**” and “**some**” rather than “**ongoing**.”
- “We believe...that events in the banking system over the past two weeks are likely to result in tighter credit conditions... which would in turn affect economic outcomes.”
- “As a result, we no longer state that we anticipate that ongoing rate increases will be appropriate to quell inflation; instead, we now anticipate that some additional policy firming may be appropriate.”
- “We will closely monitor incoming data and carefully assess the actual and expected effects of tighter credit conditions on economic activity, the labor market, and inflation, and our policy decisions will reflect that assessment.”

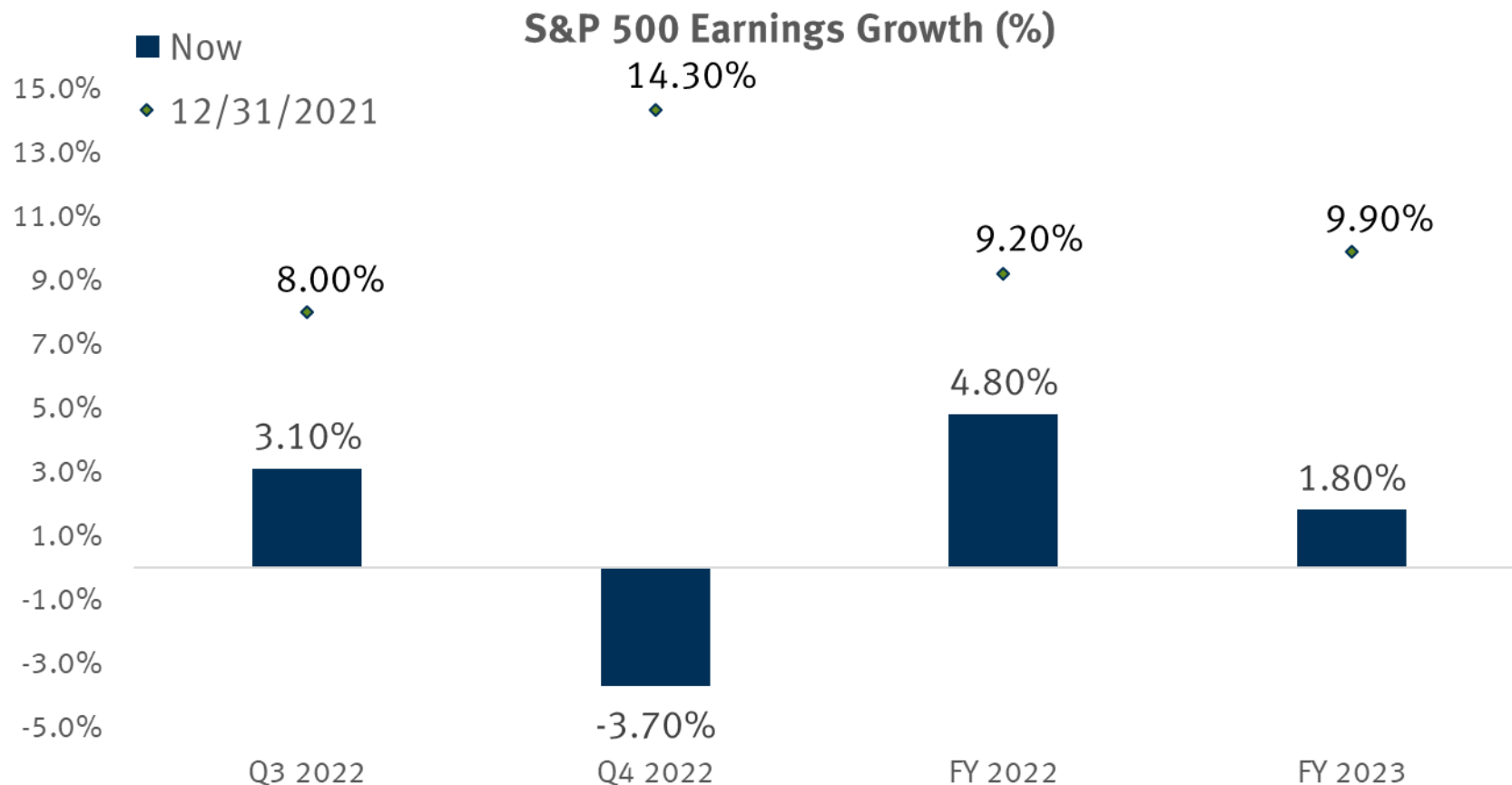
**6.8%****Lagging Indicator Year  
over Year (YoY)***1 year ago: 2.1%***1.4%****Coincident Indicator YoY***1 year ago: 4.1%***-6.5%****Leading Indicator YoY***1 year ago: 7.0%***Chances of Recession***Higher*

Source: Stifel CIO Office, as of April 3, 2023; Economic indicators above based on the data provided by the Conference Board.

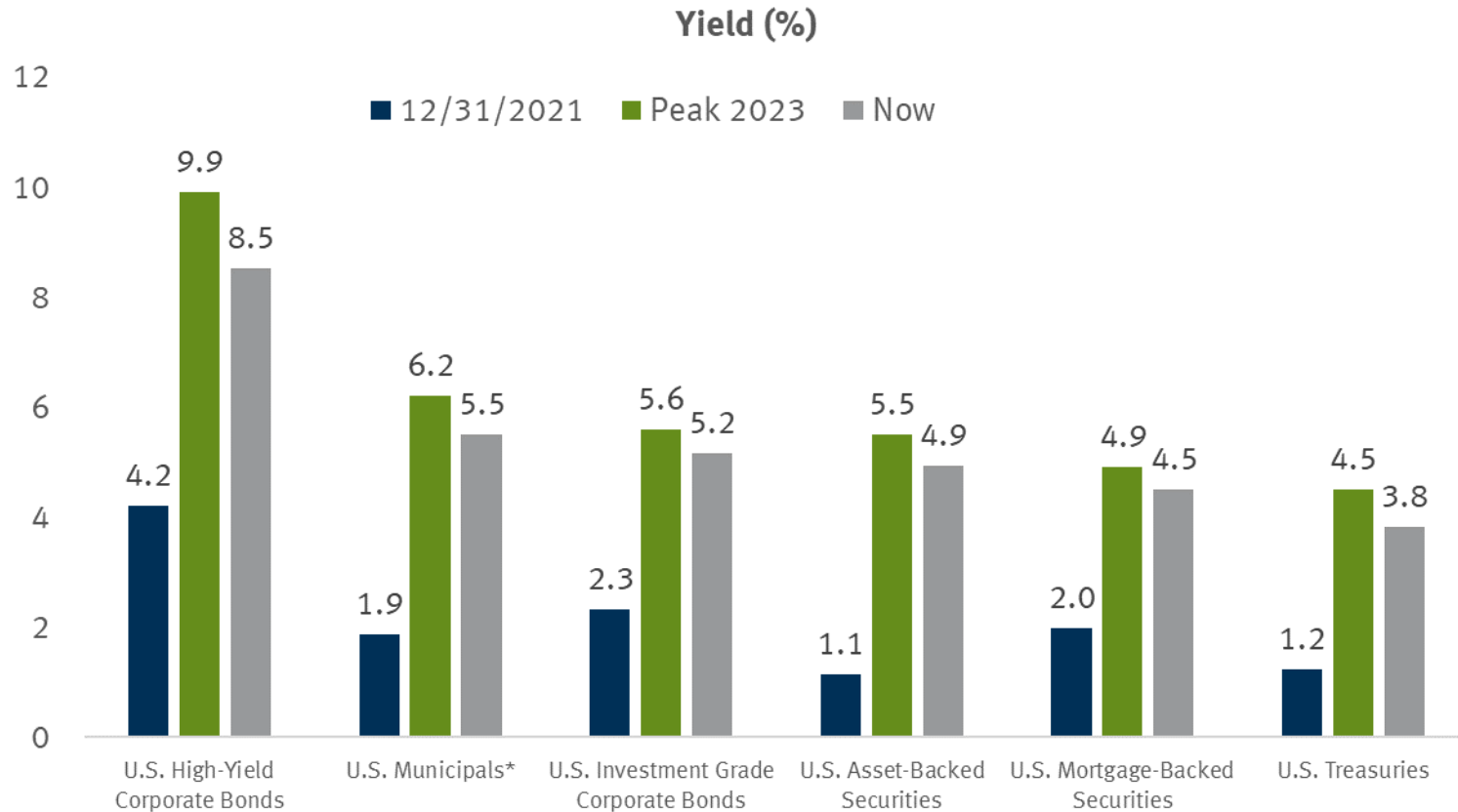
## Implied Policy Rates – Fed Funds Futures



Many companies citing supply chain, inflation, and recession

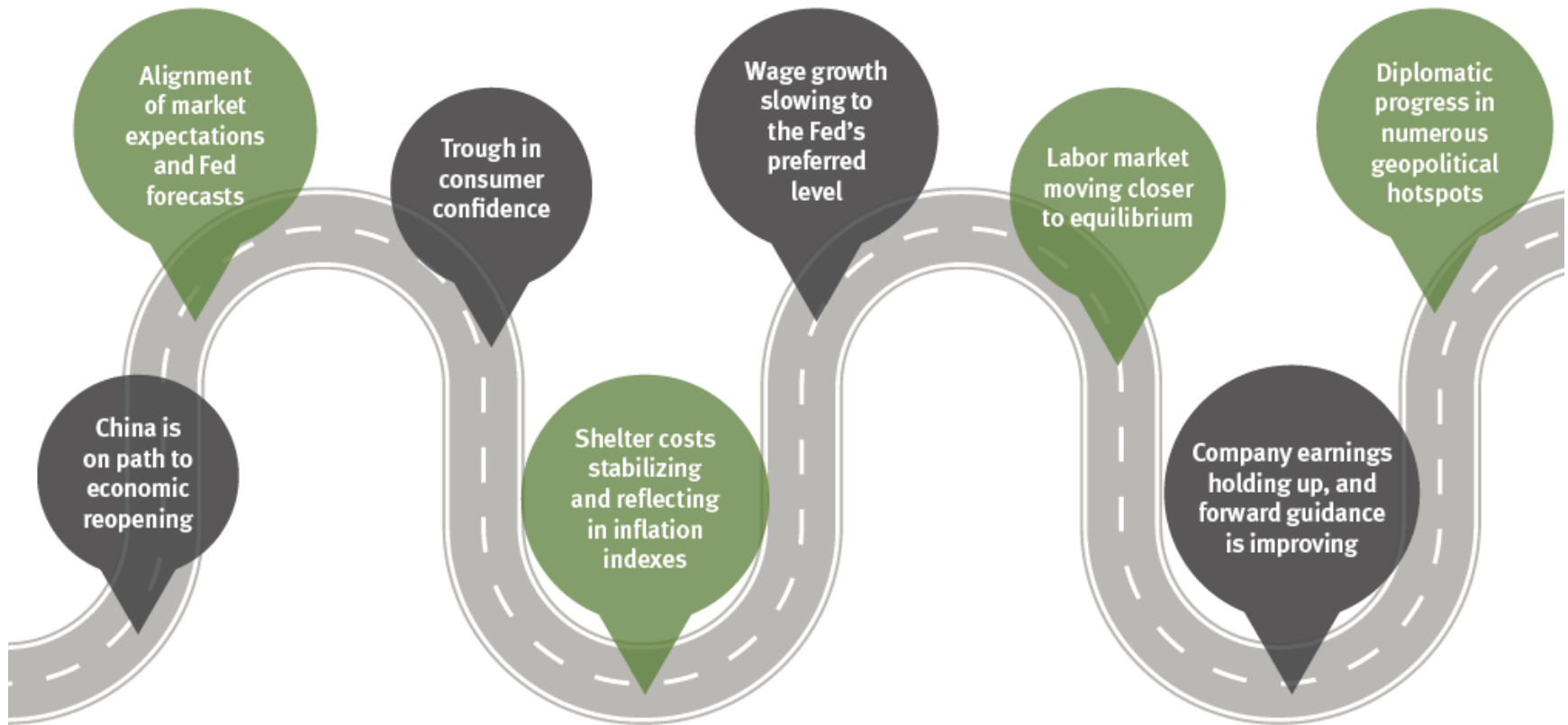


Source: Stifel CIO Office via FactSet, as of March 31, 2023



*\*Based on taxable equivalent yield. Taxable equivalent yield assumes a 37% federal tax and 3.8% net investment income tax.*

## SIGNPOSTS

[VIEW REPORT](#)[VIEW VIDEO](#)

### APRIL

7	Employment
12	Federal Open Market Committee (FOMC) Minutes
12/13	Inflation
14	Consumer Sentiment
14	Retail Sales
18/25	Housing

### MAY

3	Fed Policy Decision
5	Employment
10/11	Inflation
12	Consumer Sentiment
16	Retail Sales
17/23	Housing
24	Federal Open Market Committee (FOMC) Minutes

### JUNE

2	Employment
13/14	Inflation
14	Fed Policy Decision with Economic Projections
15	Retail Sales
16	Consumer Sentiment
20/27	Housing

### JULY

5	Federal Open Market Committee (FOMC) Minutes
7	Employment
12/13	Inflation
14	Consumer Sentiment
18	Retail Sales
19	Housing
26	Fed Policy Decision

### OTHER IMPORTANT TOPICS

- Russia-Ukraine War
- China-Taiwan Tensions
- Progression of Earnings Forecasts
- First Quarter Earnings Season
- Progression of PMI measures
- Business and consumer sentiment
- Global Inflation
- Global Central Bank Policy



## INDEX DESCRIPTIONS

**S&P 500 Index** is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

**U.S. Corp IG Bonds** is represented by the Bloomberg U.S. Corporate Bond Index, comprised of the investment grade, fixed-rate, taxable corporate bond market.

**High-Yield Bonds** is represented by the Bloomberg U.S. Corporate High Yield Bond Index, comprised of U.S. dollar-denominated high-yield, fixed-rate corporate bond market securities.

**U.S. LC (Large Cap)** equities is represented by Russell 1000 Index, comprised of 1,000 of the largest U.S. securities based on a combination of their market cap and current index membership.

**U.S. SC (Small Cap)** equities is represented by the Russell 2000 Index, comprised of 2,000 of the smallest U.S. securities based on a combination of their market cap and current index membership.

**Dev International** Equities is represented by the MSCI EAFE Index, comprised of equity securities that belong to markets outside of the U.S. and Canada.

**EM Equities** is represented by the MSCI EM Index, comprised of equity securities that belong to emerging markets.

**Moderate Bench** stands for moderate benchmark portfolio return, which is a blended portfolio of stocks (60% weight, represented by MSCI AC World Index) and bonds (40% weight, represented by Bloomberg U.S. Aggregate Government/Credit Bond Index).

**MSCI AC World Index** is comprised of equity securities belonging to 23 developed markets and 24 emerging markets countries.

**Bloomberg U.S. Government/Credit Bond Index** is comprised of investment-grade, dollar-denominated, fixed-rate Treasuries, government-related, and corporate securities.

**Bloomberg U.S. Aggregate Bond Index** is a broad-based flagship benchmark that measures the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), and ABS and CMBS (agency and nonagency).

**Russell 1000 Value Index** measures the performance of those Russell 1000 index companies with lower price-to-book ratios and lower forecasted growth values.

**Russell 1000 Growth Index** measures the performance of those Russell 1000 index companies with higher price-to-book ratios and higher forecasted growth values.

**NYSE FANG+ Index** is an equal-dollar weighted index designed to track the performance of highly-traded growth stocks of technology and tech-enabled companies in the technology, media & communications and consumer discretionary sectors such as Facebook, Apple, Amazon, Netflix, and Alphabet's Google.

**KBW Restoration Index** is composed of 13 high-frequency economic indicators. These indicators include those with longer histories (initial jobless claims, MBA mortgage applications, and steel production) along with newly developed gauges tracking mobility, dining reservations, and airport traffic, among others. KBW set each of the 13 indicators to 100 as of the end of February 2020, the official end of the longest economic cycle in U.S. history, and update the Index each week.

Indices are unmanaged, do not reflect fees and expenses, and are not available for direct investment.



## DISCLOSURES

Past performance does not guarantee future results. Investing involves risk, including the possible loss of principal. Asset allocation and diversification do not ensure a profit or protection against loss.

**Alternative Investments or Non-Traditional Assets** – Alternative investments may include, but are not limited to: Real Estate Investment Trusts (REITs), Commodities, Futures, Hedge Funds, Venture Capital, Limited Partnerships, etc.

**Real Estate** – When investing in real estate companies, property values can fall due to environmental, economic, or other reasons, and changes in interest rates can negatively impact the performance.

**Commodities and Futures** – The risk of loss in trading commodities and futures can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage that is often obtainable in commodity trading can work against you as well as for you. The use of leverage can lead to large losses as well as gains.

**Hedge Funds** – Investors should be aware that hedge funds often engage in leverage, short-selling, arbitrage, hedging, derivatives, and other speculative investment practices that may increase investment loss. Hedge funds can be highly illiquid, are not required to provide periodic pricing or valuation information to investors, and often charge high fees that can erode performance. Additionally, they may involve complex tax structures and delays in distributing tax information. While hedge funds may appear similar to mutual funds, they are not necessarily subject to the same regulatory requirements as mutual funds.

**Venture Capital** – Venture capital investments involve substantial risks. The risks associated with investing in companies in the start-up or expansion stages of development are greater than those of companies in later stages, because the companies' business concepts generally are unproven and the companies have little or no track record.

**Limited Partnerships** – Generally, limited partnership investments are suitable only for a narrow class of relatively sophisticated investors. Limited partnership investments may be speculative in nature and be subject to resale restrictions or illiquidity. An investment is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment.

**Bonds** – When investing in bonds, it is important to note that as interest rates rise, bond prices will fall. High-yield bonds have greater credit risk than higher quality bonds.

**Duration** – Duration is a measure of the sensitivity of the price – the value of principal – of a fixed income investment to a change in interest rates. Duration is expressed as a number of years.

**Standard Deviation** – Standard deviation is a measure of the dispersion of a set of data from its mean. It is calculated as the square root of variance by determining the variation between each data point relative to the mean. If the data points are further from the mean, there is higher deviation within the data set.

**International and Emerging Markets** – There are special considerations associated with international investing, including the risk of currency fluctuations and political and economic events. Investing in emerging markets may involve greater risk and volatility than investing in more developed countries.

**Private Equity** – Private equity funds are not appropriate for all investors. Investors should be aware that private equity funds may contain speculative investment practices that can lead to a loss of the entire investment. Private equity funds may invest in entities in which no secondary market exists and, as such, may be highly illiquid. The funds are not required to provide periodic pricing or valuation information to investors and often charge high fees that can erode performance. Additionally, they may involve complex tax structures and delays in distributing tax information.

## DISCLOSURES CONTINUED

**Short Positions** – The investor should note that when a short position moves in an unfavorable way, the losses are theoretically unlimited. The broker will demand more collateral and the manager might have to close out that short position at an inopportune time to limit any further losses.

**Small Company Securities** – Small company securities are typically more volatile and carry additional risks, since smaller companies generally are not as well established as larger companies.

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