OBSERVATIONS: *Powell testimony, employment data*

- Fed Chair Powell's two-day testimony on Capitol Hill was highlighted by prepared remarks in which the Fed Chair noted that "The latest economic data have come in stronger than expected, which suggests that the ultimate level of interest rates is likely to be higher than previously anticipated." [1]
- Powell's comments lifted the market's expectations for the March 21-22 Fed meeting a 70% probability of a 50bps rate hike before the turmoil in Silicon Valley Bank late in the week, dropping those expectations to just a 30% probability of a 50bps hike—25bps is fully priced in.[1]
- The labor market finally began to show some signs of cooling as the most recent January job openings and labor turnover (JOLTS) survey showed that job postings decreased to 10.8 million, down from 11.2 million openings in December, and the number of quits decreased from 4.1 million in December to 3.8 million last month—this is the first time quits were below 4 million since early 2021. Of note, construction job openings fell to pre-pandemic levels after experiencing its largest monthly decline on record in February.[1]
- Another hot jobs print: Non-farm payrolls rose +311k, better than expectations, payrolls have beaten estimates for 11 consecutive months, the longest streak in decades. Job gains were once again broad based, led by leisure and hospitality which added 105k jobs. The unemployment rate edged higher to 3.6% from 3.4% as labor force participation grew to 62.5% - the highest level since March 2020.[1]

EXPECTATIONS: *China, China, China*

- China's Two Sessions meetings resulted in Xi Jinping being re-elected President of the National Assembly for a new 5-year term as well as installing several of key deputies in supporting roles. In addition, the meetings set out some clear policy priorities which included a goal of about 5% real GDP growth this year, targeted support for the Chinese property sector, and an overhaul of local governments' borrowing powers that gives Beijing greater oversight on local governments ability to issue debt as well as the overall financial system.[2]

ONE MORE THOUGHT: *Regional banks, negative sentiment, and investors extrapolate.*[3]

On Friday, March 10, 2023, the California Department of Financial Protection and Innovation closed Silicon Valley Bank (SVB) and named the FDIC as receiver. The bank failure now ranks as second largest on record behind Washington Mutual during the Great Financial Crisis. By total assets (approximately $210 billion), SVB was the 30th largest financial (16th largest bank) in the country at the time of failure with over $150 billion in deposits that exceeded the FDIC limit. The mid-cap bank's decline weighed on markets with some notable observations. The S&P 500 fell below its 200-day moving average, a level that many have been watching, and closed down -4.5% for the week. The S&P 500 financial sector experienced the brunt of negative sentiment and selling pressure as a result of the news losing -8.5% on the week. Smaller regional banks (KBW Bank Index) fell -15.7% on the week, the third worst week since the Great Financial Crisis, behind March 20, 2020, and May 15, 2009. Interest rates fell across the yield curve under a general flight to safety. The 10-Yr US treasury dropped to 3.69% and the 2-Year US Treasury yield fell to 4.59% from a multi-year high of 5.06% reached on March 8. We'll leave the "how we got here" to the large volume of coverage this story has received and focus a bit more on the "what now."

- Most importantly, we would characterize what is going on with Silicon Valley Bank (SVB) as mostly idiosyncratic not systemic.

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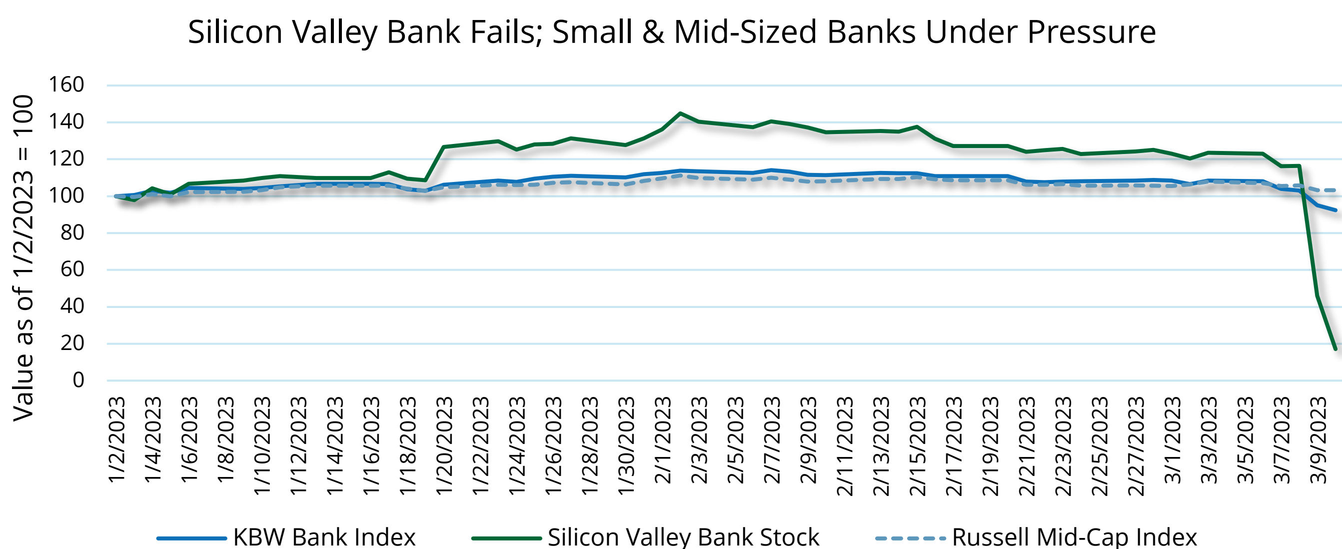
[1] *Bloomberg LP, 3/10/2023*
[2] *https://www.ft.com/content/60a7c8ad-eba8-4030-899d-ffb760d005c4*
[3] *Clearstead, WSJ, BLS, Bloomberg LP, as of 3/10/2023*

- Downward revisions among banks are likely to pick up as analysts extrapolate and recalibrate models.
- The credit cycle is more important to the overall banking system than what we are observing today (and given employment trends and general strength in the economy, we are not seeing credit issues yet).
- This episode is exposing the weak players that would likely be under considerable strain in a recession scenario – so we think this is a healthy exercise for the system at large and is a symptom of the tightening conditions the Fed is hoping for in its inflation fight.
- With the S&P 500 breaking below a key technical indicator (the 200-day moving average), it is likely to remain weak to rangebound for the next few days.
- Lost in this noise is a jobs market that just posted another strong gain this past Friday.
- The odds for a +50bps rate hike at the next Fed meeting (3/21 – 3/22) were 70% pre SVB news and now rest at +30% chance of a +50bps hike following the jobs report and market's digesting SVB news flow.
- As we have noted, the Fed is closer to the end of policy than the beginning which loosely translates into – the Fed is closer to breaking something than fixing it (SVB is in part a reflection of this).
- **We will continue to keep you updated given the fluid nature of recent events.**

CHART OF THE WEEK



Source: Bloomberg LP, Clearstead, as of 3/10/2023

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