

This month's Market Minute reflects the views of our Investment Office and was composed by [Thomas Seay, Senior Managing Director, Research](#)

### OVERVIEW

The month of March finished with the market focused on the U.S. banking system and, for the first 28 days of April, the stress in the system appeared to be easing as deposit outflows from smaller, regional banks slowed and share prices stabilized. But April's ending weekend saw U.S. regulators asking banks for their best and final takeover offers for First Republic Bank by Sunday (4/30/23) afternoon, in a move that authorities hope will calm markets and cap a period of uncertainty for regional lenders. Monday, May 1, begins with the announcement that JPMorgan Chase takes over First Republic after the bank was seized by regulators.<sup>1</sup> Only time will tell if this is the end of the 2023 banking upheaval.

Although financial markets ended April with gains, they were essentially range-bound for most of the month. The S&P 500 has in fact been range-bound for the better part of a year now, though with significant volatility within that range. Fixed income markets, as illustrated by the U.S. Treasury 10-year bond, have been range-bound since last September, but, like equities, have witnessed tremendous volatility.

One area, however, that has seen significant movement is in the 1-month to 3-month U.S. Treasury Bill market. As recently as 4/3/2023 the 1-Month bill was yielding 4.6%, while the 3-Month bill yielded 4.7%. By 4/20/2023, the 1-month bill was yielding 3.3% with the 3-month bill yielding 5.1%—a whopping 1.8% difference and a new all-time high spread. Fears of holding Treasury bills that matured during the "X date" (the date on which the Treasury would exhaust its extraordinary measures, effectively running out of money, and breaching the Debt Ceiling) seemed to drive investor preferences towards the 1-Month bill where the perceived risk of technical default would be off the table—ultimately driving 1-month bill yields lower and causing the extraordinary disconnect between the 1- and 3-month bill. As of last Friday (4/28/2023) this spread had narrowed to 1.0%, with the 1-Month bill yielding 4.1% and the 3-Month bill yielding 5.0%—which is still an unusually large spread.<sup>2</sup>

### US EQUITY MARKETS As of April 30, 2023

U.S. EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
DJIA	2.6%	2.6%	3.5%	5.6%
S&P 500	1.6%	1.6%	9.2%	2.6%
Russell 2000	-1.8%	-1.8%	0.9%	-3.7%
Russell 1000 Growth	1.0%	1.0%	15.5%	2.3%
Russell 1000 Value	1.5%	1.5%	2.5%	1.2%

For now, U.S. equity markets have largely shrugged off any concerns over the looming debt ceiling as investors have been more focused on earnings season. With just over half of the S&P 500 having reported so far, about 79% of firms are beating earnings estimates, which is above both the 5 and 10-year averages for EPS beats.<sup>3</sup> The S&P 500 was up +1.6%, while mid and small cap stock indexes ended down for the month. What worked were mega-caps in the Communication Services, Consumer Staples, and Financials sectors, and what did not work were Consumer discretionary, Industrials, and Materials sectors, as well as anything that was not mega-cap.

One item of concern is market breadth: of the S&P 500's year-to-date returns (9.2% as of 4/28/2023), nearly half has come from three stocks: Apple, Microsoft, and Nvidia.<sup>2</sup>

## INTERNATIONAL EQUITY As of April 30, 2023

### INTERNATIONAL EQUITY MARKETS

Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
MSCI ACWI ex USA	1.7%	1.7%	8.7%	3.0%
MSCI EAFE	2.8%	2.8%	11.5%	8.4%
MSCI Emerging Markets	-1.1%	-1.1%	2.8%	-6.5%
MSCI EAFE Small Cap	2.0%	2.0%	7.0%	-1.2%

Due to a weakening U.S. dollar, developed market international equities performed well as the MSCI EAFE index was up +2.8% for the month. While emerging market stocks were down (MSCI Emerging Market index -1.1%) led by the MSCI China index which traded lower (-5.2%) without much of a negative catalyst—in fact, most of the recent news out of China has investor and consumer confidence with a series of pragmatic stimulus measures and targeted pro-business reforms—but global investor sentiment remains very bearish on China.

## FIXED INCOME As of April 30, 2023

### FIXED INCOME MARKETS

Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
BarCap US Aggregate	0.6%	0.6%	3.6%	-0.4%
BarCap Global Aggregate	0.4%	0.4%	3.5%	-2.3%
BarCap US High Yield	1.0%	1.0%	4.6%	1.2%
JPM Emerging Market Bond	0.5%	0.5%	2.8%	0.1%
BarCap Muni	-0.2%	-0.2%	2.5%	2.9%

Much like equity returns, interest rates were essentially unchanged for the month until the Friday news about First Republic Bank. U.S. Treasury yields finished lower for the month as the 10-year yield was down 4 bps (3.47% to 3.43%) and the 2-year yield was down 2 bps. With interest rates down a bit and spreads slightly tighter, April closed on the upside as the Bloomberg Treasury (+0.5%), Investment Grade (+0.8%), and High Yield (+1.0%) indexes all posted solid gains.<sup>2</sup> In this range-bound environment, fixed income investors weigh the daily economic data reports and attempt to invest based on what they believe will be the Fed's next move in interest rates. Risk on investments, such as high-yield bonds, are trading at their long-term spread to risk free U.S. Treasury bonds as investors wait for clarity on the direction of the economy and interest rates.

## CONCLUSION & OUTLOOK

The economy continues to surprise on the upside with labor market strength: +236,000 jobs in March, the unemployment rate remained at 3.5%, and average hourly earnings rose by 4.2% year-over-year. While inflation, although declining, remains at elevated levels — March, headline CPI registering 5.0% year-over-year (YoY)—down from 6.0% YoY in February—and core-CPI (excluding food and energy) inching up to 5.6% YoY from February's 5.5% YoY.<sup>2</sup> These two factors in isolation would give the Fed the green light to continue to tighten monetary policy in its effort to rein in inflation. But the challenges facing regional and community banks have them diminishing their lending activities and starving small businesses of the capital they need to grow. As such, just how much additional monetary pressure will the Fed be willing to apply while the banking challenges remain, and the FDIC continues to force new rescue plans? The FOMC's upcoming meeting on May 2nd may shed some light on the likely course of interest rates in these challenging times.

### SOURCES

- 1 CNBC Online
- 2 Bloomberg LP
- 3 Factset Earnings Insight as of April 28, 2023

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