

APRIL 2023

MARKET UPDATE

Broad equity markets moved up in March with the S&P 500 gaining 3.67%, MSCI EAFE up 2.48%, and MSCI Emerging Markets up 3.03%. The second half of the month saw markets rally and recover from the pullback they experienced following the collapse of Silicon Valley Bank and the wider spread concerns over the banking system's stability. In early March, from the 6th to the 13th, the S&P 500 had lost 4.76% from concerns over the crisis, but the 13th would mark the lowest point for the month, and the S&P 500 would go on to rally over 6.5% from the March lows.

However, not every part of the equity market recovered so quickly. The Russell Midcap and Russell 2000 indices remained in the red throughout the rest of the month, with the Russell Midcap losing 1.53% and the Russell 2000 losing 4.78% in March. Not surprisingly, financials were the worst performing sector within the S&P 500 and lost 9.55%. Regional banks continue to face pressure, and the S&P Regional Banks Select Industry Index lost 28.16% in March.

The crisis changed the market's expectations over what the Fed may do over the rest of the year as well. Overall, the US yield curve shifted lower, basically reversing the move that it had made in February as the market moved to expect the Fed to begin cutting rates as soon as this summer. Overall, the expectations around Fed policy continue to shift month to month, though it did so fairly dramatically over the course of March. The lower shift helped bond markets, with the Bloomberg US Aggregate gaining 2.54% in March, putting the year-to-date gain at 2.96%.

ADVISORS' PERSPECTIVE

After a volatile 2022, US stocks had positive returns during the first quarter of 2023. Surprisingly, they showed resilience despite a banking crisis and uncertainty about what's ahead for the economy. Banking fears that plagued the first half of March began to recede in the latter half, with the S&P 500 gaining 3.67%. The markets rallied from the lows following the collapse of SVB, which had pushed the S&P 500 down over 4.7% in March.

During their last meeting in March, the Fed increased rates by another 25 basis points, raising the policy rate to 4.75% -5.00% and making it the ninth consecutive rate increase. The move brings rates to their highest since 2007. In the press conference following the decision, Powell commented on the recent bank stresses and that it caused the committee to debate pausing further rate hikes. However, the ending vote was unanimous for a 25-basis point hike. The language shift may indicate the Fed is trying to expand its room to maneuver in the next few meetings if the turmoil in global banking doesn't subside.

Previous expectations around the Federal Reserve maintaining rates "higher for longer" quickly dissipated following the collapse of Silicon Valley Bank. The Fed futures market is now expecting a 50/50 chance of the Fed either maintaining rates or hiking one more time over the next two meetings. If the expectations were to hold true, the latter half of the year would see consistent rate cuts.

Economic data slightly improved in March, though overall continues to see mixed data across the economy. The improving trend comes as some of the low-scoring categories see improvement, such as consumer sentiment and overall economic conditions, despite neither

being particularly positive. Jobs and employment continue to be the bright spot across the economy, despite slight dips in production and global output.

We remain cautiously optimistic. Considering that we are in or approaching a recessionary period, it would not be a surprise if we recovered quicker than previous ones. In times like these, investors tend to trade based on emotions. We disagree, it is more important now than ever to follow the data. Hilltops partnership with Helios relies on facts and data, which we use during our recalculations on a bi-weekly basis. Our models adjust appropriately to market conditions.

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