

March 23, 2023

Good Afternoon,

Stocks remain highly volatile with a slight upward bias so far in March. Markets are suffering from “monetary whiplash” as the Fed has raised rates 9 times in a row, including yesterday, bringing the Fed Fund rate to 5% from 0% in 12 months. While this sharp increase has begun to slow inflation, it has also exposed cracks in parts of the banking system – as we reviewed last week in our discussion of Silicon Valley Bank. The Fed now must consider the ripple effects of their actions beyond just the impacts on inflation. We feel the Fed is probably done raising rates at this point. Their next meeting isn’t until later in May and they will have plenty of data to review by then.

While headlines focus on the problems created by raising rates so quickly, there is a silver lining to consider. The Fed has now built in some room to reduce rates in the future, if needed, to restimulate the economy. While rates were at or near zero for more than 10 years, they had to rely on more creative action, like quantitative easing (buying bonds directly), to keep rates low. That process bloated the Fed’s balance sheet and artificially kept interest rates down. They have reversed that process (now quantitative tightening) adding to the whiplash caused by slamming the monetary brakes on the economy. Some economists are predicting rate cuts as early as the end of this year.

With the nicer weather, it’s great to see people out in the neighborhood enjoying the longer days. Yesterday, a man knocked at our door and asked for a small donation towards the local swimming pool. I gave him a glass of water.

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http://www.commonwealth.com/RepSiteContent/weekly_comm/commentary_redirect.htm

As always, if you would like to discuss this or anything regarding current market conditions or your portfolio, feel free to contact me at any time.

Have a great week!

Wade

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