



WEEK OF MARCH 20, 2023

Market Update

Quick Hits

1. **Report releases:** Inflation and retail sales cooled as used auto prices have declined
2. **Financial market data:** Mega-cap stocks fared well as rate expectations dropped
3. **Looking ahead:** All eyes will be on Wednesday's Federal Open Market Committee (FOMC) policy decision

Report Releases: March 13–17, 2023

Consumer Price Index February (Tuesday)

Headline and core consumer inflation largely came in as expected in February, with both measures of consumer inflation continuing to decline on a year-over-year basis.

- Expected monthly CPI/core CPI growth: +0.4%/+0.4%
- Actual monthly CPI/core CPI growth: +0.4%/+0.5%
- Prior year-over-year CPI/core CPI growth: +6.4%/+5.6%
- Actual year-over-year CPI/core CPI growth: +6.0%/+5.5%



Producer Price Index February (Wednesday)

Producer inflation came in well below economist estimates for February. Headline prices fell 0.1 percent and the 4.6 percent year-over-year increase in producer prices was below economist forecasts for a 5.4 percent increase.



Retail Sales February (Wednesday)

Retail sales fell in February after increasing much more than expected in January. Part of the drop in headline sales can be attributed to falling auto sales as core sales were flat after a 2.8 percent increase in January.



Housing Starts and Building Permits February (Thursday)

Housing starts and building permits improved more than expected in February; however, both measures of new home construction remain subdued compared to the recent highs we saw in early 2022.



>> The Takeaway

- Inflation eased on both the consumer and producer this month. Despite the easing, core consumer inflation remains elevated at 5.6 percent, driven by elevated prices in housing.
- The retail sales report continues to reflect a consumer shift from goods to services. Food services and drinking places drove the increase in sales while auto and furniture sales slipped.

Financial Market Data

Equity

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	1.47%	-1.23%	2.41%	-10.74%
Nasdaq Composite	4.44%	1.59%	11.36%	-15.54%
DJIA	-0.11%	-2.25%	-3.35%	-6.34%
MSCI EAFE	-3.13%	-3.02%	2.64%	-5.32%
MSCI Emerging Markets	-0.28%	-1.14%	-0.25%	-12.80%
Russell 2000	-2.57%	-8.89%	-1.70%	-16.03%

Source: Bloomberg, as of March 17, 2023

Equities were mixed and markets with exposure to last week's bank failures were among the hardest hit. The Russell 2000 and MSCI EAFE indices declined more than 2.5 percent as the two contained the banks First Republic and Credit Suisse, which struggled amid capital fleeing from their banks via deposits. First Republic saw 11 banks step in to deposit \$30B to sure up deposits while Credit Suisse received \$54B from the Swiss central bank. The Nasdaq Composite fared well as expectations for future rate hikes dropped and lowered expectations for increases in those firms' cost of capital.

Fixed Income

Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	2.48%	2.90%	-5.61%
U.S. Treasury	3.09%	3.20%	-5.30%
U.S. Mortgages	2.35%	2.93%	-5.47%
Municipal Bond	1.54%	2.10%	-1.81%

Source: Bloomberg, as of March 17, 2023

U.S. Treasury yields fell sharply as investors flocked to fixed income amid the equity volatility. The 2-year, 5-year, 10-year, and 30-year fell 74 basis points (bps) (to 3.84 percent), 48 bps (to 3.97 percent), 30 bps (to 3.4 percent), and 10 bps (to 3.6 percent), respectively. Future rate expectations fell dramatically last week when rate hikes proved to negatively impact Silicon Valley Bank as its portfolios were highly sensitive to changes in interest rates. The FOMC will meet on Wednesday to decide on short-term rate policy.

>> The Takeaway

- Investors flocked to mega-cap names amid volatility.
- Expectations for continued hikes from the Federal Reserve (Fed) throughout 2023 fell dramatically amid bank failures.

Looking Ahead

This week, the FOMC's rate decision will be front and center.

- Tuesday's reports will contain **existing home sales** for February. Existing home sales are expected to pick up modestly. If estimates hold, this would mark the first month with sales growth since January 2022.
- Wednesday will see the **FOMC rate decision**. Economists and investors will be closely monitoring the release for hints on the future path of monetary policy.
- Thursday will include weekly **initial jobless claims**, which are being monitored for softening in employment.
- Finally, the preliminary **durable goods orders report** for February will be published on Friday. Headline orders are set to rebound following a transportation-driven slump in January while core order growth is expected to slow.





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The S&P 500 Index is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. All indices are unmanaged and investors cannot invest directly in an index.

The MSCI EAFE (Europe, Australia, Far East) Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada. The MSCI EAFE Index consists of 21 developed market country indices.

One basis point (bp) is equal to 1/100th of 1 percent, or 0.01 percent.

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