PRECISION
Financial Services, Inc.
Designed to Fit Your Needs

April Market Update

Hope you are doing well! March was an eventful and memorable month for U.S. financial markets, so we thought we would reach out with an overview of the key developments.

Overall, banking turmoil led the mid-month market narrative after the events of Silicon Valley Bank, Signature Bank, and Credit Suisse. The resulting market volatility was short-lived during March, and major U.S. equity indexes demonstrated remarkable resilience.

Major U.S. Stock Indexes

Major U.S. stock indexes naturally fell on the banking turmoil, but the selloff was remarkably short-lived, with the S&P 500 Index having only one down week out of four in March. Buyers emerged in the final trading days of March, ending the month and quarter with a bang across the S&P 500, Nasdaq, and Dow Jones Industrial Average.

It may not feel like March was a positive month for the S&P 500 (given the headlines and volatility), but the proof is in the pudding!

For March, the mega-cap tech-heavy Nasdaq 100 led the way, increasing by 9.46%; the S&P 500 was higher by 3.51%; and the Dow Jones Industrial Average increased by 1.89%.

Volatility Yo-Yo

S&P 500 Volatility, as measured by the $VIX, had a yo-yo of a month. Starting the month of March, the $VIX opened at 20.81 before spiking north of 30 as the events of Silicon Valley Bank and Signature Bank unfolded mid-month.

But fast forward to the end of the month, and the $VIX (also known as the Fear Index) closed the month below $19, even lower than where it began the month of March before the banking issues ensued.

Moral of the story? Tensions rightfully ran high during the mid-month banking turmoil. But cooler heads quickly prevailed, and based on the $VIX and major stock indexes during March, all of the fear that came into the market came out of the market just as quickly.

Where have the market bears gone? It seems like hibernation.

Bearish Sentiment – too high?

It seems like everyone is awaiting the most highly anticipated recession in history. Solid fundamental reasons exist for such logic, including elevated interest rates, inflation, and an inverted yield curve to name a few.

But markets don't always behave the way most people think they will.

The CNN Fear and Greed Index, which measures investor sentiment on a scale of 1 (extreme fear) to 100 (extreme greed), currently sits at 49 to close out the month and quarter, indicating neutral market sentiment. The Index saw a low reading of 22 at the peak of March's banking turmoil.

For active investors and traders, the recent market rally to end the month of March is a rally you love to hate! It's a good time to mention that equity markets are indeed forward-looking mechanisms, so what is dominating the narrative at any given moment may not represent the direction of a market.

Ultimately, it's good to be a long-term investor.

Tech Leads the Way

Surprising to many, mega-cap tech stocks led the way for much of March, with the Nasdaq 100 adding 9.46% for the month.

Seeing tech lead markets higher is highly constructive and keeps the door open to broader market strength should the trend continue.

25 Basis Point Rate Hike

Amid the banking turmoil, the Fed raised the U.S. benchmark lending rate by 0.25% at its March meeting. The ninth consecutive interest rate hike brings the Fed's target interest rate range to 4.75% - 5.00%.

The Fed did indicate that interest rate increases are nearing completion. But the Federal Open Market Committee (FOMC) statement also said, "The Committee anticipates that some additional policy firming may be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2 percent over time."

"The process of getting inflation back down to 2% has a long way to go and is likely to be bumpy," Jerome Powell said in testimony before the Senate Banking Committee.

Market participants may be factoring in a less hawkish Fed recently, contributing to the demand for equity investments.

Government Bond Yields Fall

The benchmark 10-year note yield had a wild and volatile month during March, settling at 3.493% for the month, down sharply from the February monthly settlement of 3.917%.

Safe-haven demand surged upon the SVB news, and investors bid up treasuries at a healthy clip. At one point in March, the two-year Treasury note yield posted its biggest three-day decline since 1987.

Interestingly, as equities rose toward the end of the month, government bond yields did not increase very sharply. This price action seems to potentially indicate the current market's read on the future direction of interest rates.

Jobs Growth

Nonfarm payrolls for February, released on March 10, showed continued strength. The jobs number came in above expectations again, showing 311,000 jobs created versus 225,000 expected.

The strong employment data left the data-dependent Fed's pathway to higher interest rates open. The Fed delivered two weeks later with a 25-basis-point hike.

Rising interest rates are intended to cool job demand, yet employers continue to add workers at a healthy pace. The strong jobs market could be a contributing factor to keeping interest rates elevated from the Fed's perspective.

Inflation Moderation

Consumer Price Index (CPI): The latest data for February showed inflation at 6.0% year over year, in line with market expectations.

The 6.0% rise was the lowest annual increase since September 2021 and marked the eighth straight month of declines.

On a monthly basis, consumer prices advanced 0.4% following a 0.5% rise in January. Core inflation, which excludes volatile food and energy, rose by 0.5% month-over-month in February. It was 5.5% higher on a year-over-year basis.

Consumer inflation appears to be slowing, but it is still clearly elevated.

Core Personal Consumption Expenditures (PCE): On the last day of the month and quarter, we got more encouraging news on the inflation front courtesy of Core PCE.

The Core Personal Consumption Expenditures Index rose less than expected in February, rising by 0.3%, a deceleration from January (which notched a 0.5% gain). Year-over-year, Core PCE increased 4.6%, a slight deceleration from January data.

Looking under the hood of the headline PCE metric, inflation in services continues to show elevation, but durable goods pricing has cooled.

Fed Thread

Can the Fed thread this needle that the market wants to see (i.e., combating inflation without pushing the country into a recession)? Fundamentally, there are headwinds facing the financial markets, but the major U.S. equity indexes traded with technical strength towards the end of March.

It feels like a crossroads for the financial markets, with participants trying to figure out if the Fed will pause hiking at the next meeting on May 3rd.

The Takeaway - March

March had plenty of data and events to digest. The month featured a quick spike in volatility courtesy of banking instability, but the volatility was short-lived. The message of the markets was ultimately one of calmness, perhaps to the surprise of many. Major U.S. equity indexes found their footing in a quick and impressive fashion, moving higher in the final week of the month, with the S&P 500 closing out March near its monthly highs.

The strength in the Nasdaq 100 is what market bulls want to see for a supportive broader market environment.

If there is anything on your mind that your advisor can help with, please feel free to reach out.

***** As a reminder, the markets as well as our office are closed Friday in observance of Good Friday *****