



May 3, 2023

Dear Friends and Clients,

Spring is often thought of as an uplifting time, marked by growth and renewed hope as we emerge from the long months of winter and look ahead to the rest of year. Investors saw signs of such renewed hope in recent weeks, especially on the inflation front as several inflation measures showed signs of improvement. We also saw markets stabilize after the surprisingly fast collapse of Silicon Valley Bank. But although it initially appeared that a stable spring would set the markets up for a calm, quiet summer, a flurry of recent activity is testing investor sentiment.

Another bank collapse also put investors a bit on edge last week as JPMorgan—with financial support from the FDIC—will acquire First Republic Bank, the second biggest bank to fail in U.S. history. The story was similar to Silicon Valley Bank, with a concentrated and wealthy deposit base and mismanaged bond portfolio. These unique characteristics and a government backstop make any other large bank failures unlikely in the near term, though sentiment around bank conditions is fragile.

In other significant news, Treasury Secretary Janet Yellen warned that the date when the U.S. might not be able to pay its bills is fast approaching, if the debt ceiling is not raised or suspended soon. With the time for debate shrinking, the Treasury encouraged Congress not to wait until the last minute to resolve the debt ceiling issue (as they did in 2011). This urgent warning may actually provide a silver lining for investors, however, if Congress is pushed to resolve the issue sooner and avoids a summer-long Congressional debate. Markets may stabilize once the debt ceiling issue is resolved and the Fed ends its current interest rate tightening campaign.

Looking ahead, we see several signs of health for the economy and markets, such as delinquency rates on consumer loans still below pre-COVID-19 levels. Although business hiring intentions have slowed and consumers are pulling back on spending, we do not see the types of cracks we observed in the years leading up to the Great Financial Crisis. We may not have a clear path for growth just yet, with some banks still under duress and the debt ceiling yet unresolved, but we believe the upward trajectory remains thanks to a relatively healthy consumer base.

Please reach out to me if you have any questions.

Best regards,

Victor



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