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Weekly Commentary

MARCH 13, 2023

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Drama upstaged

Up until Friday, the markets were struggling to react to Federal Reserve Chair Jerome Powell's testimony on Capitol Hill. The two-day, semi-annual Humphrey-Hawkins meetings don't usually stir the waters, but his rebuke of the stubborn market optimism that the Fed might soon reach the end of its tightening campaign moved markets, with U.S. Treasury yields climbing. His message was that economic data continues to be stronger than the Fed would like as it looks to defeat inflation. His words changed projections for the next FOMC meeting, resulting in a higher chance the Fed would enact a 50 basis-point hike next week rather than the previously expected 25 basis-point variety.

That changed Friday when the FDIC took the troubled Silicon Valley Bank into receivership after it failed and the Fed announced it would make good on the deposits. It also created of a new Bank Term Funding Program (BTFP) to try to avert a larger banking crisis. As some investors point to the aggressive nature of Fed tightening as putting pressure on banks and other sectors in general, the markets repriced the rate increase back to a higher probability of a 25-basis point jump, with about a 25% chance of no change in the meeting next week. No doubt expectations will change this week as the situation develops.

G40461-19 (3/23)