

March 2023

# Demarche Dashboard

A Flash Report on Markets and the Economy



Data and Commentary for the Period Ended 3/31/2023

## Global Overview

Asset classes provided differing returns shaped by the continued story of global inflation and quantitative tightening. Increased volatility from the bank failures in the U.S. and Europe rippled throughout the global economy, driving down overall expectations for rate hikes despite sticky inflation. In spite of the macroeconomic headwinds, the MSCI World gained 3.1%, aided by U.S. Growth stocks, European gains, and Japan's market returns.

## U.S. Markets & Economy

The market experienced high volatility during the month, primarily driven by the banking industry, making it challenging for domestic equities to post positive returns. The effects of a handful of bank failures stretched across the U.S. and the globe, causing the U.S. Fed to temper their rate hiking plans. Throughout the last several months, the Fed has largely maintained a "higher for longer" stance on interest rates. However, after hiking rates another 25 basis points in March to target range of 4.75-5.00%, Powell identified that the Fed is nearing the end of the rate-hiking cycle. The Fed also noted that despite approaching the end of a hiking cycle, the fight against inflation is far from over. Despite the economy being strong in March, with the composite PMI jumping to 53.3 (from 50.1), mostly driven by the Services PMI, the higher interest rate environment could pose a threat to Manufacturing. Currently, Manufacturing PMI is at 49.2 in March, up 2 points from February, but still remains below 50 indicating a contraction. A slowdown in manufacturing is further supported by the New Orders Index showing deteriorating demand, coming in well below expectations (of 47.5) at 44.3 and declining steadily since 2020. Although unemployment levels held steady at 3.6%, initial jobless claims (not seasonally adjusted) increased to 223,913 at the end of March. This was a 5.1% increase from the previous week versus the 1.4% that was expected, showing early signs of a loosening labor market. The reports showing slowing economic activity combined with the weakness in the banking sector led to the majority of domestic equity styles losing in March, with the exception of the growth asset classes, like the Russell 1000 Growth Index that gained 6.8% in March, which was boosted by large technology gains. Value styles underperformed their total return index counterpart due to banking losses in the financial sector. The Russell 2000 Value lost 7.2% while the Russell 2000 only lost 4.9%, due to larger exposure to regional banks, while the Russell 1000 Value lost .5% compared to Russell 1000 gaining 3.2%

Although most equities declined in March, fixed income asset classes offered positive returns. The Bloomberg US Gov/Credit posted a 2.8% gain in March and a positive year-to-date return of 3.2%. These returns have continued to be a result of the high interest rate policy combined with the market's belief that rate hikes have ended and that the Fed may be forced to cut rates in reaction to a recession. Although high yield funds are still experiencing outflows (investors exiting mutual funds), the Credit Suisse HY Index gained 1.3% in March and is up 3.9% this year. The treasury yield curve still remains meaningfully inverted but has started to steepen over the past two months. Historically, the inversion of the curve will reverse before a recession, as it has started to do.

## International Markets & Economy

The bank panic not only affected the U.S., but international countries felt the effect as well. Although moderate, the ECB has pulled down their expectations for rate hikes but still has headway to make as inflation remains elevated with Core CPI of 5.7% in March, an increase of 0.1% from the previous month. While balancing concerns about banks and inflation, the ECB hiked rates another 50 basis points, with the resulting interest rate at 3.5%. The Eurozone Manufacturing PMI stalled while the Service PMI boomed, helping the composite PMI increase from 52 in February to

# DeMarche Dashboard

Data and Commentary for Periods Ended 3/31/2023

March 2023

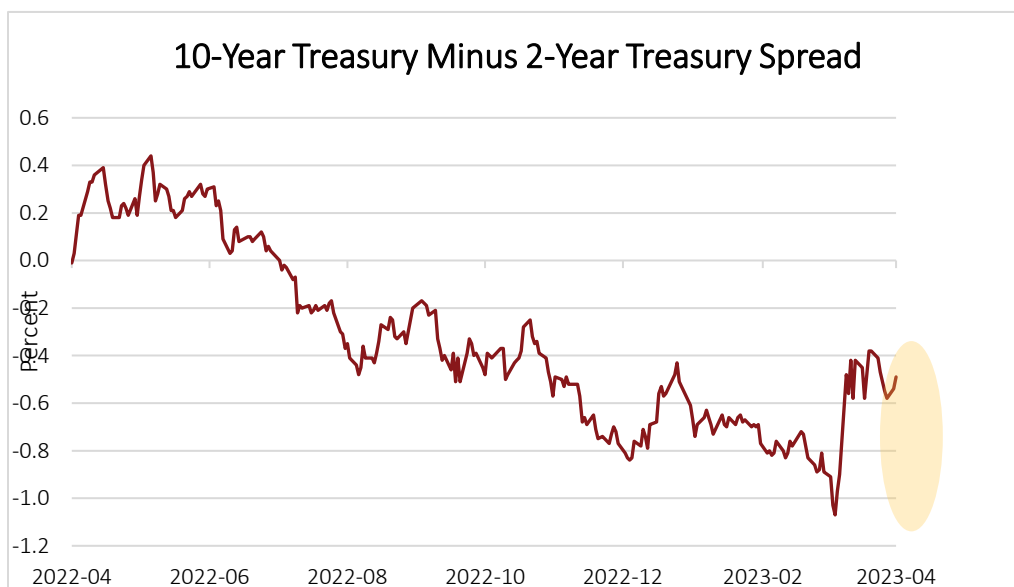
Page 2 of 6

54.1 in March, a 10-month high. Although consumer confidence is still below average and core inflation is persistent, the MSCI Europe gained 2.4% in the month of March. China has continued to experience momentum from its reopening, which has caused PMI to be strong throughout 2023, but Manufacturing PMI has fallen, suggesting that the rebound may be coming to a close. Additionally, China's February CPI came in below expectations and their PPI remains in the deflationary range, causing the People's Bank of China to ease monetary policy and pull down their reserve requirement ratio by 0.25%, earlier than predicted. Despite some indicators suggesting an end to the economic rebound, the MSCI China Index gained 4.5% during March.

## In the News

Over the last month, banks have been at the forefront of investors' minds. The story begins with the second largest bank failure in U.S. history, Silicon Valley Bank (SVB), creating a crisis of confidence due to a credit rating agency, Moody's, that was going to downgrade SVB's credit rating. In hopes to improve the balance sheet and current ratio, SVB sold around \$20 billion worth of bonds to reinvest and announced its intention to raise equity by selling new shares, but this reallocation scared the bank's investors and many venture capitalists. This incited mass amounts of depositors (that were skewed toward venture capitalists and related firms) to begin the snowball effect of a bank run. But, at the core, the SVB failure was more of a risk management issue. SVB held a significantly higher percent of held-to-maturity (HTM) securities as a percent of total assets, almost double or triple that of other large banks like JP Morgan, Wells Fargo, and Citigroup. The effect of a large percent of HTM, or unsellable long-term debt, created large amounts of unrealized losses in 2022 due to the rising interest rate environment, leaving the bank in a subpar financial state. Conversely, big banks with lower ratios of HTM assets were more resilient in addition to having resources to withstand bank runs. This leaves regional banks under pressure for two primary reasons. First, Moody's has been reviewing multiple mid-sized banks for a possible credit downgrade, which naturally places a more bearish view in the stock market. Second, regional banks have additional risk due to their inability to handle large amounts of deposit withdrawals due to bank runs, unlike the larger banks. Although the banking industry as a whole has taken a hit, larger banks like Bank of America, only lost 16% in March compared to a regional bank stock, First Republic, down 89%. In reaction to the banking crisis, the spread between the 10-year and 2-year treasury snapped back in response to the increasing expectations for a rate cut at the end of the year. This reduced inversion from -1.0% to -0.5% in a five day period, as seen in the Chart of the Month. Generally, this uptick in volatility in the Treasury market means mass uncertainty amongst investors.

## Chart of the Month



Source: FRED

# DeMarche Dashboard

Data and Commentary for Periods Ended 3/31/2023

March 2023

Page 3 of 6

## Capital Markets Overview

	TRAILING			ANNUALIZED				
	1-Mo	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	
Broad Market	MSCI World NR USD	3.09	7.73	7.73	(7.02)	16.40	8.01	8.85
	BBgBarc US Agg Bond TR USD	2.54	2.96	2.96	(4.78)	(2.77)	0.91	1.36
	Russell 3000 TR USD	2.67	7.18	7.18	(8.58)	18.48	10.45	11.73
	DJ Industrial Average TR USD	2.08	0.93	0.93	(1.98)	17.31	9.01	11.15
	NASDAQ Composite PR USD	6.69	16.77	16.77	(14.05)	16.65	11.59	14.10
	MSCI EAFE NR USD	2.48	8.47	8.47	(1.38)	12.99	3.52	5.00
	FTSE Treasury Bill 3 Mon USD	0.40	1.12	1.12	2.61	0.95	1.40	0.85
	Bloomberg Commodity TR USD	(0.21)	(5.36)	(5.36)	(12.49)	20.82	5.36	(1.72)
Domestic Equities	S&P 500 TR USD	3.67	7.50	7.50	(7.73)	18.60	11.19	12.24
	S&P MidCap 400 TR	(3.21)	3.81	3.81	(5.12)	22.10	7.67	9.80
	S&P SmallCap 600 TR USD	(5.16)	2.57	2.57	(8.82)	21.71	6.30	9.87
	Russell 1000 TR USD	3.16	7.46	7.46	(8.39)	18.55	10.87	12.01
	Russell 1000 Growth TR USD	6.84	14.37	14.37	(10.90)	18.58	13.66	14.59
	Russell 1000 Value TR USD	(0.46)	1.01	1.01	(5.91)	17.93	7.50	9.13
	Russell Mid Cap TR USD	(1.53)	4.06	4.06	(8.78)	19.20	8.05	10.05
	Russell Mid Cap Growth TR USD	1.38	9.14	9.14	(8.52)	15.20	9.07	11.17
	Russell Mid Cap Value TR USD	(3.15)	1.32	1.32	(9.22)	20.69	6.54	8.80
	Russell 2000 TR USD	(4.78)	2.74	2.74	(11.61)	17.51	4.71	8.04
	Russell 2000 Growth TR USD	(2.47)	6.07	6.07	(10.60)	13.36	4.26	8.49
Russell 2000 Value TR USD	(7.17)	(0.66)	(0.66)	(12.96)	21.01	4.55	7.22	
International Equities	MSCI ACWI Ex USA NR USD	2.44	6.87	6.87	(5.07)	11.80	2.47	4.17
	MSCI EAFE NR USD	2.48	8.47	8.47	(1.38)	12.99	3.52	5.00
	MSCI EAFE Growth NR USD	5.34	11.09	11.09	(2.79)	10.95	4.88	6.01
	MSCI EAFE Value NR USD	(0.26)	5.93	5.93	(0.31)	14.58	1.75	3.75
	MSCI Japan NR USD	3.96	6.19	6.19	(5.23)	7.39	1.27	5.03
	MSCI AC Asia Ex Japan NR USD	3.48	4.34	4.34	(8.90)	6.95	0.07	4.06
	MSCI Europe NR USD	2.37	10.56	10.56	1.38	15.00	4.35	5.36
	MSCI United Kingdom NR USD	(0.62)	6.11	6.11	(0.84)	14.59	2.98	3.43
	MSCI EAFE Small Cap NR USD	(0.21)	4.92	4.92	(9.83)	12.07	0.87	5.86
	MSCI EM NR USD	3.03	3.96	3.96	(10.70)	7.83	(0.91)	2.00
Fixed Income	BBgBarc US Govt/Credit TR USD	2.82	3.17	3.17	(4.81)	(2.63)	1.16	1.50
	BBgBarc US Govt/Credit Interm TR USD	2.30	2.33	2.33	(1.66)	(1.28)	1.40	1.32
	BBgBarc US Govt/Credit Long TR USD	4.40	5.76	5.76	(13.40)	(6.33)	0.63	2.35
	ICE BofA US High Yield TR USD	1.13	3.72	3.72	(3.56)	5.84	3.06	4.03
	Credit Suisse HY USD	1.34	3.90	3.90	(3.02)	6.29	3.03	3.95
	S&P/LSTA Leveraged Loan TR	(0.03)	3.23	3.23	2.54	8.52	3.63	3.76
	FTSE WGBI NonUS USD	4.46	3.72	3.72	(12.96)	(6.24)	(4.34)	(1.53)
	BBgBarc Gbl Agg Ex USD TR	3.73	3.06	3.06	(10.72)	(4.13)	(3.17)	(0.99)
REITs	FTSE Nareit All REITs TR	(2.07)	1.49	1.49	(19.78)	10.31	5.66	6.09
	Wilshire US REIT TR USD	(2.55)	3.25	3.25	(21.33)	11.03	5.66	5.89

USD - US dollar priced index TR - Total Return PR - Price Return LCL - Local Currency Priced Index NR - Return includes reinvested net dividends

Source: Morningstar

For Institutional Use Only

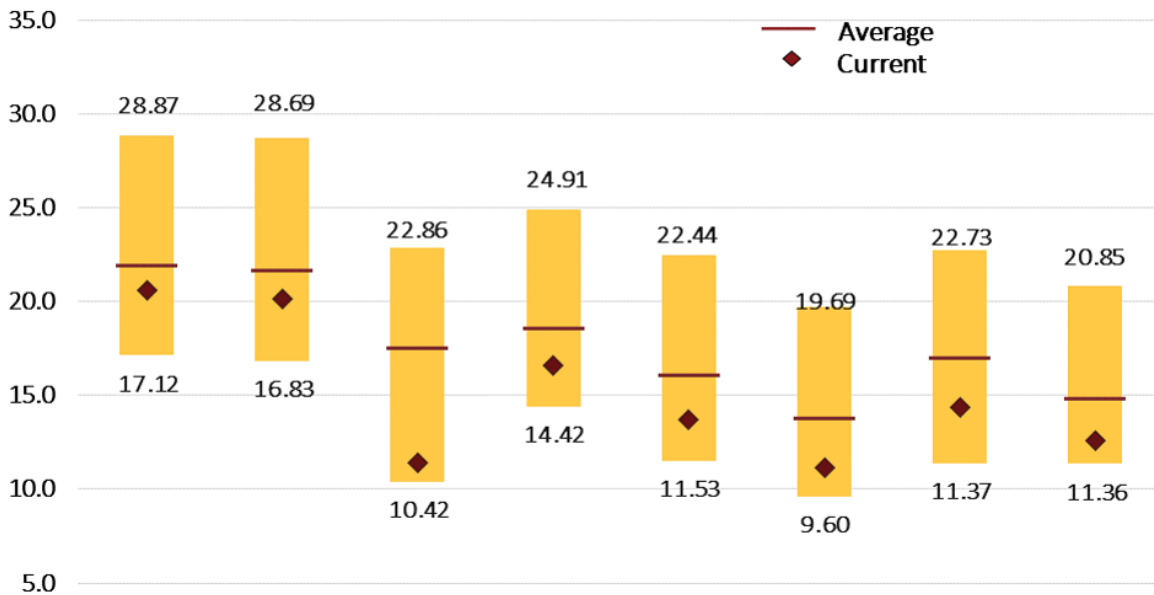
# DeMarche Dashboard

Data and Commentary for Periods Ended 3/31/2023

March 2023

Page 4 of 6

## Current Trailing P/E vs. Trailing 5-Year High, Low, Average



	S&P 500	Russell 1000	Russell 2000	MSCI AC World	MSCI EAFE	MSCI EM	MSCI Europe	MSCI AC Asia Pac
High Month	Mar-21	Mar-21	Nov-17	Mar-21	Mar-21	Jan-21	Mar-21	Jan-21
Low Month	Dec-18	Dec-18	Sep-22	Dec-18	Sep-22	Oct-22	Sep-22	Sep-22

Source: Morningstar

## Economic Indicators

	GDP			Unemployment Rate	Interest Rates	Exchange Rates <sup>3</sup> per US \$		Inflation <sup>2</sup>
	Latest <sup>1</sup>	2023 <sup>1</sup>	2024 <sup>1</sup>	(Most recently available)	Sovereign Bonds, 10 Year	Current	1 Year Ago	(Most recently available)
<b>United States</b>	2.60	1.50	0.90	3.60	3.55	-	-	5.50
<b>China</b>	0.00	5.30	4.90	5.60	2.89	6.87	6.34	0.60
<b>Japan</b>	0.00	1.40	1.10	2.60	0.32	132.75	121.44	3.10
<b>United Kingdom</b>	0.10	-0.20	0.90	3.70	3.49	1.24	1.32	6.20
<b>Euro Area</b>	0.00	0.80	1.50	6.60	3.22	1.09	1.11	5.70
<b>Germany</b>	-0.40	0.30	1.70	5.60	2.31	1.06	1.11	5.70
<b>France</b>	0.10	0.70	1.30	7.20	2.79	0.93	1.11	6.10
<b>Italy</b>	-0.10	0.60	1.00	8.00	4.09	1.06	1.11	6.36
<b>Canada</b>	0.00	1.10	1.40	5.00	2.89	1.35	1.25	4.70
<b>India</b>	0.80	5.90	7.10	7.80	7.31	82.30	74.97	6.07
<b>Mexico</b>	0.50	1.80	2.10	2.70	8.82	18.03	19.91	8.09
<b>Brazil</b>	-0.20	1.00	1.10	8.60	12.93	5.07	4.73	7.62

Sources: (Most recently available data) St. Louis Federal Reserve, The Wall Street Journal, OECD, Trading Economics

1. Latest GDP is seasonally adjusted annualized rate. 2022 & 2023 is forecasted data from OECD

2. In terms of Core CPI

3. Euro Area and U.K. exchange rates quoted in market standard format (USD/Non-USD currency)

# DeMarche Dashboard

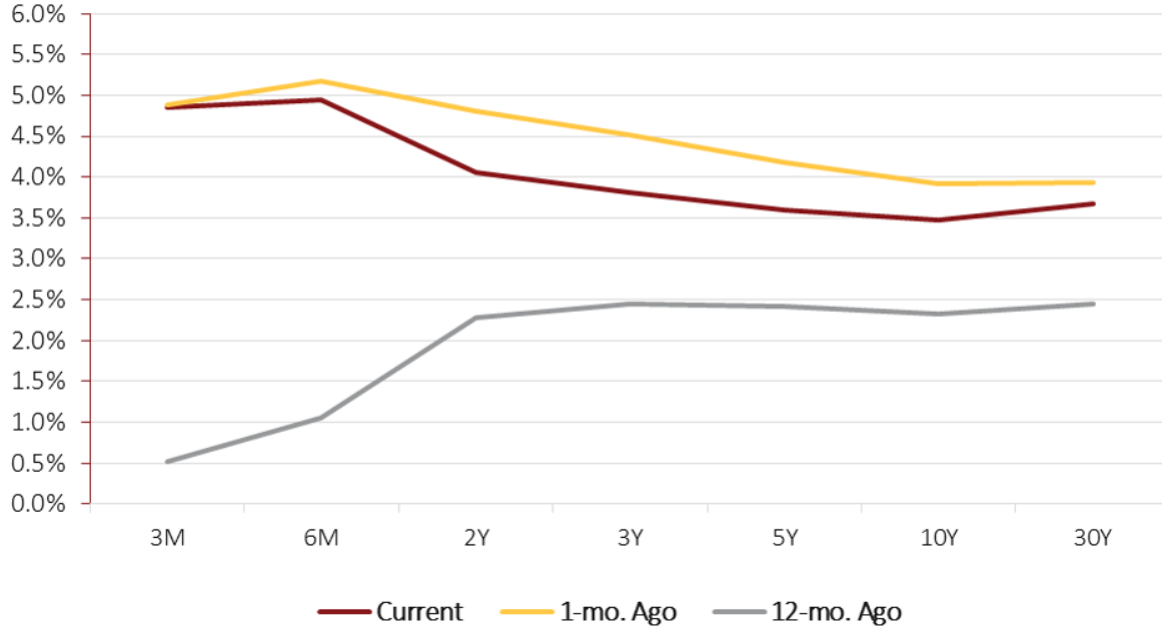
Data and Commentary for Periods Ended 3/31/2023

March 2023

Page 5 of 6

## U.S. Treasury Yield Curves

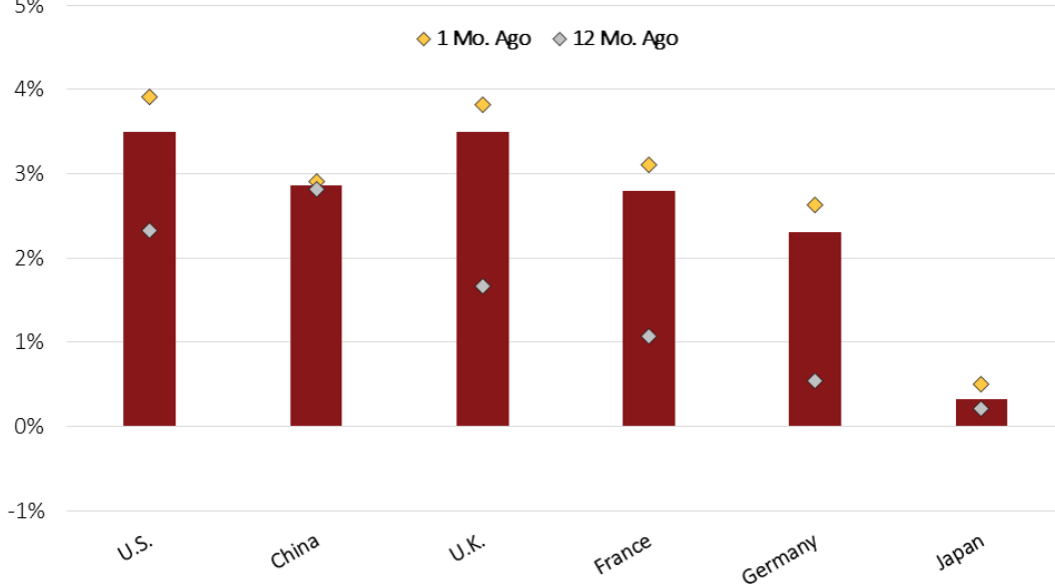
as of 03/31/2023



Source: Federal Reserve Bank

## 10-Year Sovereign Yields

as of 03/31/2023 (most recently available)



Source: Trading Economics

# DeMarche Dashboard

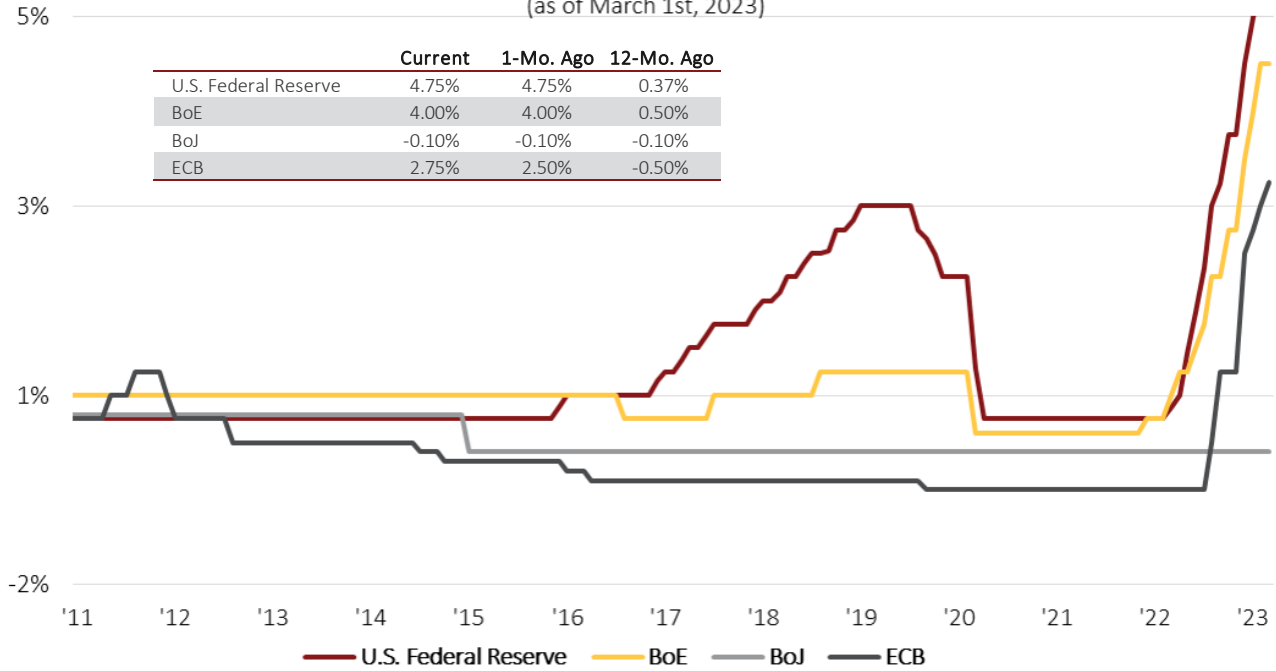
Data and Commentary for Periods Ended 3/31/2023

March 2023

Page 6 of 6

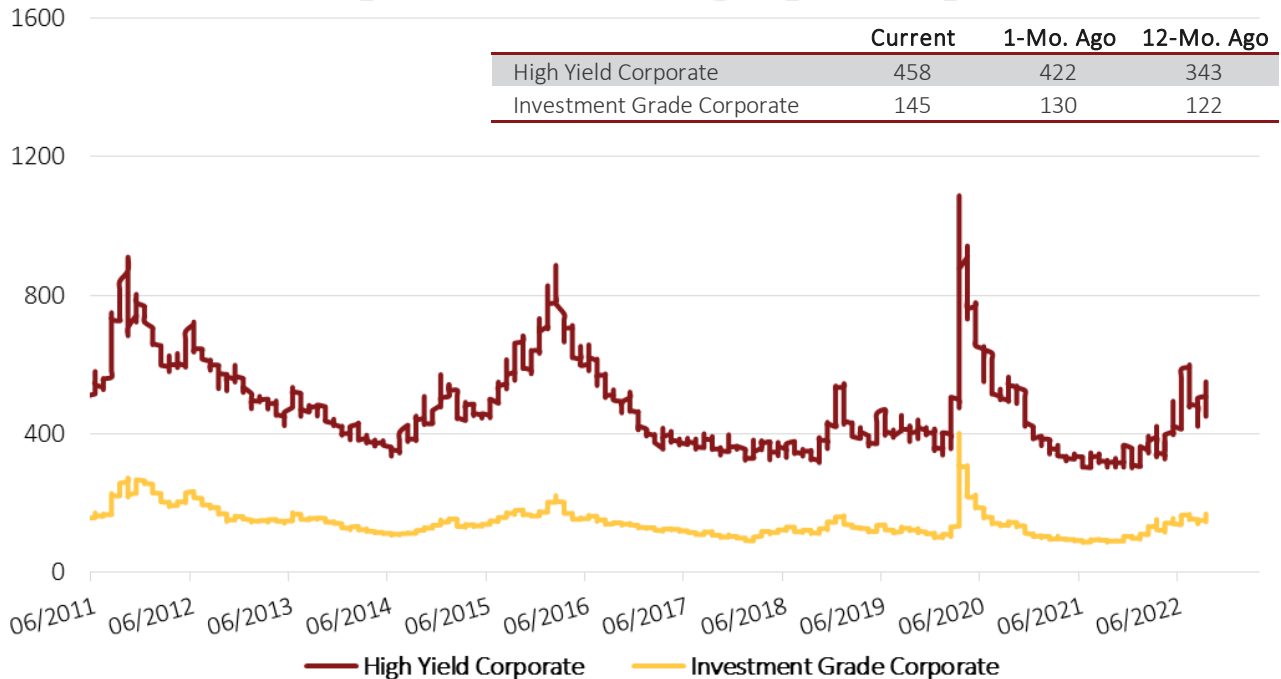
## Central Bank Policy Rates

(as of March 1st, 2023)



Source: Federal Reserve Bank, Bank of England, European Central Bank, Trading Economics

## Corporate Bond Average Spread (bps)



Source: Federal Reserve Bank