Monthly Newsletter
April 2023

ARCH GLOBAL ADVISORS

Monthly Market Recap

March ended a strong start to Q1, with major indexes rebounding sharply. The Dow finished the month up 2.1%, the S&P gained 3.7% and the Nasdaq rose 6.8%. From a technical perspective, equity markets have now entered a bull phase with the NASDAQ up 17.05% to start 2023 and up more than 20% since the end of December. The S&P was up 7.5% for the quarter. Only in 1938 and 1981, have 2 consecutive quarters of S&P gains been seen in bear markets, giving equity bulls more assurance that the recent bounce may be sustainable. While history appears to be on the side of markets continuing to propel higher, the uncertainty of tighter credit conditions, lending standards, and the potential for commercial real estate to be the next shoe to drop, still pose risks to the downside for markets.

Despite the positive start to the year, March saw isolated banking turmoil, with regional banks such as Silicon Valley Bank (SVB) and Signature Bank collapsing. First Republic was given a de facto bailout by the 'too-big-to-fail' banks and Credit Suisse was absorbed by UBS in a weekend fire sale. In response, the Fed stepped in to guarantee deposits and calm markets, offering assurance that the financial system was sound and stable. In the week that followed the collapse of SVB, the Fed increased its balance sheet by $297 billion, reversing more than half of the quantitative tightening that has been done since last April in a single week, by offering loans to banks that didn't properly hedge interest rate risk and had excessive exposure to held-to-maturity Treasuries that would need to be sold prior to par (at a discount) if further bank runs were to happen. To put this in context, more than $40 billion was withdrawn from SVB in 4 hours caused by higher interest rates (the Fed eventually 'breaking' something) and concentrated hysteria after that bank announced it would need more than $2 billion to shore up its balance sheet. Oftentimes, instability leads to stability, as markets have rallied since the news of SVB sent shockwaves throughout the system. It's still too early to know if these are merely isolated incidents caused primarily by mismanagement. However, liquidity is the fuel that propels markets higher. This sharp reversal in Fed loans can now be seen as a "backstop", despite the Fed continuing to hike the Fed Funds rate to fight inflation (we continue to believe this is a policy mistake and now counterproductive). In March, the Fed took the Fed Funds rate up another 25 basis points and continues to maintain a terminal target peak between 5-5.25% and hold a confounding hawkish stance, which market participants are balking at. PCE for the month was .3%, less than expected.

As we head into April, (which is typically the best month of the year for the Dow) the market narrative has changed dramatically in the last few weeks, with the no-landing scenario decreasing in probability, as market participants are now pricing in 4 potential rate cuts in 2023, despite the Fed sticking with zero. Just a few weeks ago, that probability was zero. Again, we feel the Fed is behind the curve. Historically, when the Fed pauses interest rate hikes, the S&P on average moves 15% higher over the next 12 months. With credit conditions likely tightening (potentially benefitting inflation as well), this could negatively impact earnings according to Mike Wilson at Morgan Stanley. However, looking back to April 1 of 2019, the same bear arguments were made and the S&P rallied 14% to end the year and the NASDAQ moved 19% higher for the remaining 3 quarters.

	Index Return %	
Equities	**MTD**	**YTD**
S&P 500	3.7%	7.5%
Russell 3000	2.7%	7.2%
Nasdaq	6.8%	17.0%
Dow Jones	2.1%	0.9%
Fixed Income		
US Aggregate	2.5%	3.0%
US Corporate High Yield	1.1%	3.6%

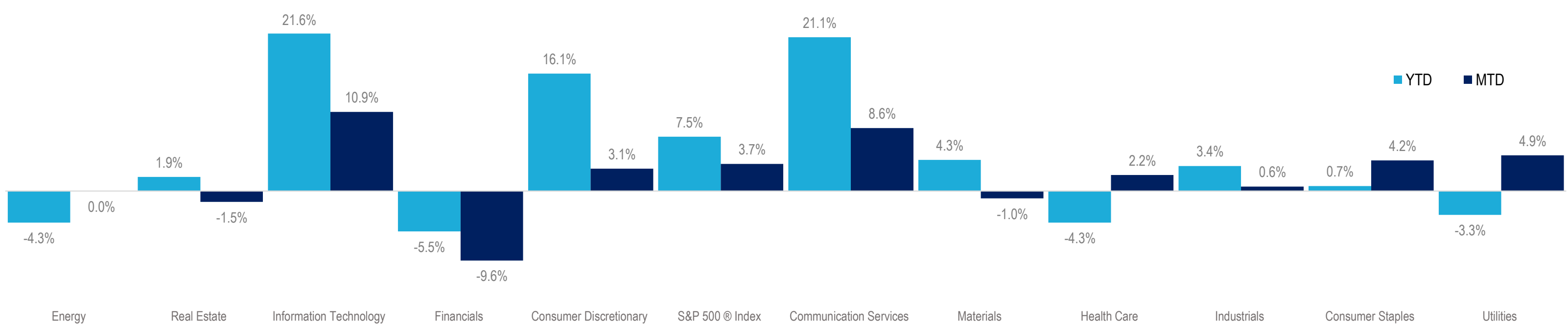
	Rate %
Economic Metrics	**Feb-23**
US Unemployment Rate	3.60%
US Inflation Rate	6.04%

	Levels	
Commodities	**Feb-23**	**Mar-23**
Oil (WTI)	76.88	72.87
Gold	1,824.60	1,993.80
DowJ. Commodity Index	1,006.30	1,003.67

	Rate %	
Interest Rates	**Feb-23**	**Mar-23**
10 Year Treasury Rate	3.92%	3.55%
30 Year Treasury Rate	3.93%	3.74%
30 Year Mortgage Rate	6.50%	6.32%
US Corp. AAA Effective Yield	4.78%	4.41%

All numbers reported are as of March 31, 2023

Major Economic Events	**Date**
Employment Situation	7-Apr
Inflation Rate	12-Apr
FOMC Meeting	3-May



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Sources	
S&P 500 Performance	https://ycharts.com/indices/%5ESPXTR/level
Russell 3000 Performance	https://ycharts.com/indices/%5ERUATR/level
Nasdaq Performance	https://ycharts.com/indices/%5ENA100TR/level
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