Sharp decline on Powell testimony and SVB Financial problems

It was a losing week for the stock market as investors digested Fed Chair Powell's testimony before Congress, the February employment report, and news of SVB Financial's Silicon Valley Bank being shut down.

Downside moves this week had the S&P 500 slice through support at its 50-day moving average, then its 200-day moving average.

The market started to get a bit shaky after Fed Chair Powell's remarks to the Senate Banking Committee and House Financial Services Committee had investors rethinking the possibility of a 50 basis points rate hike at the March FOMC meeting.

Participants took notice of the following remarks from his prepared testimony:

"Although inflation has been moderating in recent months, the process of getting inflation back down to 2 percent has a long way to go and is likely to be bumpy. As I mentioned, the latest economic data have come in stronger than expected, which suggests that the ultimate level of interest rates is likely to be higher than previously anticipated. If the totality of the data were to indicate that faster tightening is warranted, we would be prepared to increase the pace of rate hikes. Restoring price stability will likely require that we maintain a restrictive stance of monetary policy for some time."

Mr. Powell, in the Q&A portion of his testimony, acknowledged that it is likely that the ultimate rate the Fed writes down in its Summary of Economic projections at the March meeting is likely to be higher than what was written down at the December meeting. He also added that the economic data thus far suggests that the Fed has not overtightened and still has more work to do.

Notably, the fed funds futures market saw an abrupt turn in expectations for the March FOMC meeting, pricing in a 78.6% probability of a 50 basis points rate hike versus just 31.9% before Fed Chair Powell's testimony.

The reaction to Fed Chair Powell's remarks was jarring enough for the capital markets, but things would get even more challenging in the wake of news on Thursday that SVB Financial (SIVB) was seeking to raise capital after it saw elevated cash burn from its clients. That news was disconcerting for market participants knowing that something typically "breaks" when the Fed is in an aggressive tightening cycle, and that the banks, whether they are the specific problem in that regard, will likely get pulled into it nonetheless given their lending role.

Around 12:30 p.m. ET Friday, it was announced that SVB Financial Group's Silicon Valley Bank was shut down as the FDIC created a Deposit Insurance National Bank of Santa Clara to protect insured depositors of Silicon Valley Bank, Santa Clara, California. That news contributed to added flight to safety interest in the Treasury market and further prompted market participants to rein in their risk exposure amid concerns about a possible contagion effect.

The 2-yr note yield declined 27 basis points this week to 4.59% while the 10-yr note yield dropped 26 basis points to 3.70%.

With the fallout surrounding SVB Financial, the fed funds futures market pivoted back to thinking that the Fed is likely to raise rates by only 25 basis points at the March FOMC meeting. To that end, the CME FedWatch Tool indicates only a 39.5% probability now of a 50 basis points rate increase.

The SVB Financial situation largely overshadowed a relatively pleasing February employment report on Friday that was accented with stronger than expected nonfarm payrolls and weaker than expected average hourly earnings growth.

The S&P 500 settled Friday near its lowest levels of the week with losses in all 11 sectors.

For the week, the worst performing sector was the financial sector, which declined 8.5%, followed by a 7.6% decline in the materials sector, a 7.0% drop in the real estate sector, a 5.6% decline in the consumer discretionary sector, a 5.4% decline for the energy sector, and a 4.5% drop for the industrial sector. The best performing sector this week was the consumer staples sector, which was down 1.9%.

- Nasdaq Composite: -4.7% for the week / +6.4% YTD
- Russell 2000: -8.1% for the week / +0.7% YTD
- S&P Midcap 400: -7.4% for the week / +0.9% YTD
- S&P 500: -4.6% for the week / +0.6% YTD
- Dow Jones Industrial Average: -4.4% for the week / -3.7% YTD

Past performance is not a guarantee of future results. Indices are unmanaged and one cannot invest directly in an index. Diversification does not guarantee investment returns and does not eliminate the risk of loss.

Data and rates used were indicative of market conditions as of the date shown and compiled by Briefing.com. Opinions, estimates, forecasts, and statements of financial market trends are based on current market conditions and are subject to change without notice. References to specific securities, asset classes and financial markets are for illustrative purposes only and do not constitute a solicitation, offer, or recommendation to purchase or sell a security. S&P 500 Index is a market index generally considered representative of the stock market as a whole. The index focuses on the large-cap segment of the U.S. equities market. Each company's security affects the index in proportion to its market value. NASDAQ Composite Index is a market value-weighted index that measures all NASDAQ domestic and non-U.S. based common stocks listed on the NASDAQ stock market. Dow Jones Industrial Average is a widely used indicator of the overall condition of the stock market, a price-weighted average of 30 actively traded blue chip stocks, primarily industrials, but also includes financial, leisure and other service-oriented firms. Russell 2000 Index measures the performance of the smallest 2,000 companies in the Russell 3000 Index of the 3,000 largest U.S. companies in terms of market capitalization. MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.

Park Avenue Securities LLC (PAS) is a wholly owned subsidiary of The Guardian Life Insurance Company of America (Guardian). PAS is a registered broker/dealer offering competitive investment products, as well as a registered investment advisor offering financial planning and investment advisory services. PAS is a member of FINRA and SIPC.

2023-152541 (Exp. 03/25)

PARK AVENUE SECURITIES