Week Ending 5/5/2023

WEEK IN **PERSPECTIVE**

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Rate hikes and regional banks take center stage

The stock market closed out the first week of May on an upbeat note, but Friday's positive price action was not enough to recoup this week's losses for most of the major indices.

The S&P 500 breached its February high closing level (4,179) this week, hitting 4,186 at its high on Monday, before slipping below the 4,050 level on Thursday.

There was no shortage of market-moving events this week that included a barrage of earnings reports, the FOMC rate hike on Wednesday, the ECB rate hike and Apple's earnings report on Thursday, and the April Employment Report on Friday. In addition, there was a surprise announcement on Tuesday from Treasury Secretary Yellen that extraordinary measures to pay the nation's bills could be exhausted as early as June 1. Following that disclosure, it was announced that President Biden will meet with House Speaker McCarthy and other Congressional leaders on May 9 to discuss the debt ceiling.

Overarching themes that drove the price action were growth concerns, ongoing fallout in regional bank stocks, debt ceiling worries, and uncertainty about central banks overtightening and forcing a sharper economic slowdown; however, Friday's trade was dictated by the upbeat response to Apple's earnings report, the April Employment Report, and a needed rebound in the regional bank stocks.

Market participants learned last weekend that First Republic Bank (FRC) was seized by regulators. Subsequently, the FDIC facilitated a deal whereby JPMorgan Chase acquired a substantial majority of assets and assumed the deposits and certain liabilities of FRC. Then on Thursday, PacWest confirmed it's considering strategic options. Concerns continued to mount after the FT reported that Western Alliance is also considering strategic alternatives, including a possible sale, yet Western Alliance disputed the report, calling it "categorically false in all respects."

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PacWest and Western Alliance fell sharply this week, registering losses of 43.3% and 26.8%, respectively, despite outsized gains on Friday due to short-covering activity.

Worries about central banks overtightening and forcing a sharper economic slowdown came into focus on Wednesday after the FOMC voted unanimously to raise the target range for the fed funds rate by 25 basis points to 5.00-5.25%, which was largely expected. The main indices declined that day, however, on the nagging view that the Fed is not inclined to cut interest rates soon despite a contrary view that has been priced into the fed funds futures market.

Some of Fed Chair Powell's remarks in his press conference that participants were presumably reacting to included his acknowledgement that the process of getting inflation back down to 2.0% has a long way to go. He added that if the Fed's inflation forecast is broadly right, it would not be appropriate to cut rates.

The Hong Kong Monetary Authority, the Norges Bank, and the ECB all followed the FOMC rate hike by raising their key lending rates by 25 basis points.

By Friday, though, some concerns about overtightening and central banks forcing a hard landing for the economy started to dissipate. The shift in sentiment was in response to the April Employment Report, which was good enough to engender some thoughts that a soft landing for the economy may still be possible despite the Fed's aggressive rate hikes.

Apple drove a lot of the index level gains on Friday following its pleasing earnings report and capital return plan.

Only three of the 11 S&P 500 sectors closed with gains this week unsurprisingly led by the information technology sector (+0.6%), benefitting from the move in Apple. The defensive-oriented health care (+0.1%) and utilities (+0.1%) sectors also outperformed. The energy sector (-5.8%) saw the biggest decline by a wide margin followed by financials (-2.7%) and communication services (-2.3%).

In other stock specific news, there was a successful IPO on Thursday with Johnson & Johnson's consumer health spinoff Kenvue going public.

Treasuries settled the week with gains in most tenors. The 2-yr note yield fell 15 basis points to 3.91% while the 10-yr note yield was unchanged at 3.45%. The U.S. Dollar Index fell 0.4% to 101.24.

- Nasdaq Composite: +0.7% for the week / +16.9% YTD
- S&P 500: -0.8% for the week / +7.7% YTD
- Dow Jones Industrial Average: -1.2% for the week / +1.6% YTD
- S&P Midcap 400: -1.2% for the week / +1.3% YTD
- Russell 2000: -0.5% for the week / -0.1% YTD

2023-155372 (Exp. 8/23)

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