Ropes Wealth Tells A Tale of Two Markets

Former President Donald Trump has been criminally indicted by New York District Attorney Alvin Bragg on 34 counts of wrongdoing, including for the payment of hush money to Stormy Daniels. Trump is expected to be in court Tuesday, and the world is watching breathlessly given the potential for riots and unrest reminiscent of the January 6 attacks on the Capitol. Also alarming, journalist Evan Gershkovich from the *Wall Street Journal* has been arrested and detained in Russia for espionage in another escalation of aggression as the war in Ukraine drags on. Sadly, our nation experienced yet another horrific school shooting that killed six innocent people at a Christian elementary school, including three nine-year old children.

After a global pandemic, the pain continues. We keep waiting for the best of times, and yet it seems humanity continues to bring forth the worst of times, a season of darkness, a winter of despair. Perhaps I am being hyperbolic, but I think even Dickens would have thought we were due for something good to happen next.

Maybe we should consider the fact that the banking system hasn't descended into global chaos as a positive. This week we saw Federal Reserve Vice Chair for Supervision, Michael Barr, testify before the House and Senate Banking Committees on Capitol Hill. Lawmakers repeatedly asked Barr whether or not the Fed failed to do its job as a "*supervisor*" in the case of Silicon Valley Bank. Barr argued the bank's failure was not a reflection of the Fed, but a "*textbook case of bank mismanagement.*" In a sign of tighter lending conditions to come, Barr said he anticipates a need to strengthen capital and liquidity rules for some regional banks after being loosened at the end of the last decade.

This past week the Fed released its weekly H.8 report on the assets and liabilities of commercial banks. The report typically does not garner much attention, but it was the talk of the town in the current swirl (well, maybe second to Gwyneth Paltrow's victory in her ski crash lawsuit). In the seasonally adjusted results, large banks (defined as the 25 largest) saw deposit inflows of $67 billion (+0.6%) for the week ending March 15. Smaller banks (smaller than the 25 largest) saw deposit outflows of $120 billion (-2.2%), the largest weekly decline in records going back to 1973. Notably, the largest outflow during the financial crisis was $54 billion in the week ending March 14, 2007.

In other news, economic data was mixed this week, headlined by Friday's PCE release which indicated inflation fell slightly in February to a 4.6% annual figure by this measure. The report showed personal consumption expenditures rose 0.3% for the month, down from a 0.6% increase in January. This should be encouraging for Fed officials, though the annual figures remain well above their 2% target and markets now expect one more quarter point rate increase before taking a pause. We also saw the final revision to fourth quarter GDP this week, which cut growth from a 2.7% to 2.6% rate. What was really worrisome, though, was how the composition of growth was revised away from consumer activity towards investment and government outlays. Digging deeper and excluding trade and inventories, which combined contributed more than 1.8% to headline growth, real final sales to domestic producers rose just 0.7% at the end of 2022, painting a rather tepid picture of activity.

On the flip side, both the FHFA and S&P CoreLogic home price reports beat expectations in January. On a year-over-year basis, prices remain up according to these surveys, but the rates of gain have slowed to 5.3% and 2.5%, respectively. The story for home prices continues to be location, location, location. The FHFA regional data show prices on the west coast slowing the most while prices in the southeast are holding up best. In the S&P report, San Francisco and Seattle have been hit the hardest over the last twelve months, and Seattle, Las Vegas, Denver, San Francisco, and Phoenix saw the biggest monthly declines in January. But the brief drop in mortgage rates in early

February along with a pullback in home prices seem to have stabilized the housing market as we head into peak homebuying season. Pending home sales posted their third consecutive monthly gain, supporting the narrative that the worst for housing may be over. According to a statement by the National Association of Realtors (NAR): "*After nearly a year, the housing sector's contraction is coming to an end…Existing-home sales, pending contracts and new-home construction pending contracts have turned the corner and climbed for the past three months*." Pending contracts are considered a forward-looking indicator and given their strong correlation with existing home sales, there should be more upside for home sales activity, though the current banking crisis does pose risks.

To end on a higher note than I began, consumer confidence rose in March, as the Consumer Confidence Index unexpectedly edged higher to a 104.2 reading. Since the survey includes results up to March 20th, which is roughly 10 days after the Silicon Valley Bank failure, the uptick in optimism indicates that the banking sector crisis did not have a major impact on consumer sentiment. The small rise in optimism was driven by a more upbeat outlook of future financial/business conditions though consumers were not pleased with their present conditions. The continuing strength in the labor market was noted as the main reason why future optimism is holding up (ChatGPT has not replaced us yet!).

For their part, markets remarkably continue to hang in and moved higher this week, with gains especially strong in the oversold technology, communication services, and consumer discretionary sectors. Markets are starting to price the best of both worlds: a recession that allows rates to be low and brings inflation down sharply, yet one that does not have a massively negative effect on corporate earnings. We can only hope. However, even if that specific Goldilocks scenario does not quite play out, we must remember that current market levels are well off of their highs and already reflect a good deal of the array of risks we face. As we manage through those risks day by day without succumbing, the possibilities of a far, far better future than the past year we have known start to give flight.

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