



# CAPITAL GROUP

## THE WEEK AHEAD

March 20th -24th, 2023

Weekly insights from Strategic Partner Jeff Kilburg -

**The Federal Reserve's interest-rate decision on Wednesday will be the main event during a week with several notable earnings reports in Nike, Nvidia, Chevron & General Mills. The latest economic data highlighting housing, purchasing manager's index, and durable goods also rolls out on Friday.**

Investors are hoping that anxiety peaked last week as fear over U.S. bank failures shook markets around the world. In the United States, regional banks such as: First Republic, PacWest Bancorp, Zions Bancorp, and Western Alliance Bancorp were taken out back to the woodshed. Even Schwab stock was down 20% at one point intraday as nervousness about access to cash climaxed. The broad market, including the banks, rallied on an inflationary data that finally met economists' expectations of cooling inflation. But bank jitters drove investors hard into Treasuries, dropping the 10-year note substantially under 3.5%. My March forecast was for Treasury yields to drop due to inflation breaking, it was not predicated nor forecast on a potential meltdown for regional banks. Regardless, the 4% yield level in the 10-year indeed served as a ceiling in the benchmark Treasury note. Even with volatility dramatically picking up, stocks found a way to survive and in some instances thrive: the Dow industrials was nearly flat -0.15%, to 31,861; the S&P 500 jumped 1.42%, to 3916; and thanks to the 10-year note cooperating with my forecast..the Nasdaq Composite surged 4.37%, to 11,630.

**Banks:** Regulators closed Signature Bank, which had exposure to crypto, after swiftly seizing Silicon Valley Bank (SVB), agreeing to make depositors whole at both. The eternal debate over moral hazard and regulation once again arose, deposits flowed to the largest banks (JPM), and the Federal Reserve began a rethink of midsize-bank rules. Later in the week, 11 big banks deposited \$30B at First Republic to calm the waters. This distress has introduced the notion that the Fed may "pause" this meeting.

**Credit Suisse:** Switzerland's biggest bank, UBS, has agreed to buy its ailing rival Credit Suisse in an emergency rescue deal aimed at stemming financial market panic unleashed by the failure of two American banks earlier this month. In 2007, Credit Suisse had a \$1.2T market cap. UBS is now paying \$3.25B for the battered bank, about 60% less than the bank was worth just last Friday. Credit Suisse shareholders will be largely wiped out, receiving the equivalent of just 0.76 Swiss francs in UBS shares for stock that was worth 1.86 Swiss francs on Friday.

## Calendar

### Monday

- 10:00 a.m. Quarterly financial report

### Tuesday

- FOMC begins its meeting
- 10:00 a.m. Existing home sales

### Wednesday

- 2:00 p.m. FOMC statement and projections
- 2:30 p.m. Fed Chair Powell Press Conference

### Thursday

- 8:30 a.m. Initial claims
- 10:00 a.m. New home sales

### Friday

- 8:30 a.m. Durable goods
- 9:30 a.m. St. Louis Fed President Bullard
- 9:45 a.m. S&P Global Manufacturing PMI
- 9:45 a.m. S&P Global Services PMI

With volatility dramatically higher in the wake of regional bank carnage, investors have taken solace in the Government coming in to stabilize. This is not a traditional run-on-banks scenario, this is egregiously managed treasury books by several banks that simply got greedy and have now been caught with their proverbial hand in the cookie jar. An old saying on the floor in Chicago, "Pigs get fat, Hogs get slaughtered" rings true yet again. The Fed may have to rethink their 25 basis point rate hike if more unrest unravels before Wednesday's interest-rate decision delivery. Stay nimble and optimistic, the consumer is still strong.

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Capital CS Group

15375 Barranca Pkwy, Ste G-110 Irvine, CA 92618

844-390-2797

[info@capitalcsgroup.com](mailto:info@capitalcsgroup.com)

[capitalcsgroup.com](http://capitalcsgroup.com)