

# Making Sense

## Special Update:

### Recent Market & Economic Developments

In light of recent liquidity issues with certain regional banks, US regulators took the following actions:

#### Regulatory response:<sup>i</sup>

1. Under the systemic risk exception (SRE), Treasury Secretary Janet Yellen instructed the FDIC “to complete its resolutions of Silicon Valley Bank and Signature Bank in a manner that fully protects all depositors, both insured and uninsured.”
2. Additionally, the [Federal Reserve and Treasury also announced the Bank Term Funding Program \(BTFP\)](#), which would provide loans up to one year in length to all federally insured banks in return for eligible collateral. The Fed facility would value collateral at par rather than at market value. **This would allow banks to fund potential deposit outflows without realizing losses on depreciated securities.**
3. Regarding the discount window (the lending program between banks and the Fed), the Federal Reserve stated, “**Depository institutions may obtain liquidity against a wide range of collateral** through the discount window, which remains open and available. In addition, the discount window will apply the same margins used for the securities eligible for the BTFP, further increasing lendable value at the window.”

#### Economy and Markets:

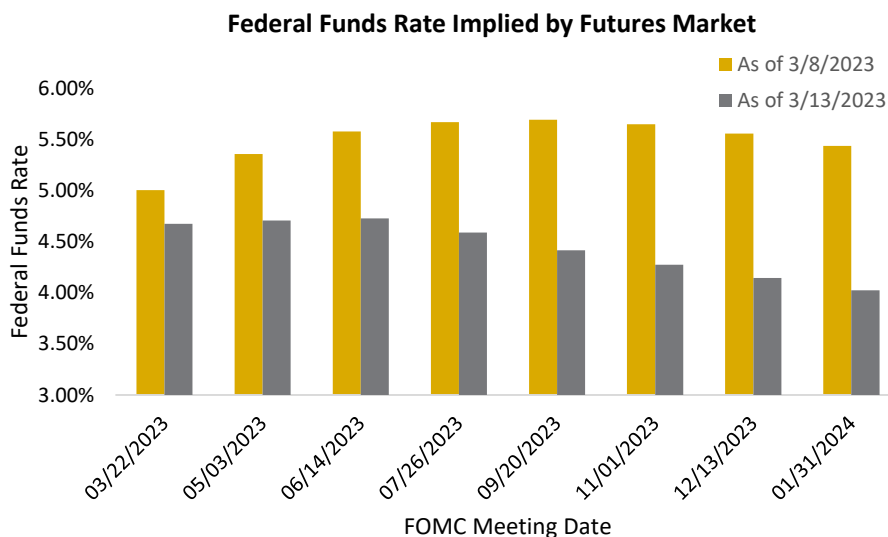
**Monetary Policy:** The stress on the financial system caused by liquidity events has shifted expectations for future Federal Reserve monetary policy. As of March 8<sup>th</sup>, the market expected the Fed to raise the overnight rate 0.50% on March 22<sup>nd</sup> and continue to hike rates, reaching 5.91% in September (Exhibit 1). Intra-day pricing as of today shows that market participants now expect a 0.25% hike in March, with a possibility of no Fed action at the March meeting. Futures are now pricing in the likelihood of rate cuts in coming quarters.

#### What to know:

While it may be tempting to get out of markets during times of volatility, remember to keep a historical perspective and focus on the long-term. Reach out to your First Citizens partner with questions and join us for our [Making Sense market and economic update](#) on March 28<sup>th</sup> at 12 pm EDT.

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**Exhibit 1: Fed Funds Rate Implied by Futures Market**



Source: Bloomberg

**Fixed Income Markets:** In response to recent events, we have seen a significant flight to quality. As such, Treasury yields have fallen precipitously across the entire yield curve (Exhibit 2). **This shift in yields represents one of the most significant short-term movements in decades.**

**Exhibit 2: Treasury Yields**

US Treasury Yields		
Index	3/8/2023	3/13/2023*
2-Year Treasury	5.07%	4.08%
3-Year Treasury	4.75%	3.89%
5-Year Treasury	4.35%	3.64%
10-Year Treasury	3.99%	3.50%
30-Year Treasury	3.90%	3.60%

\*March 13th. 10:30am

Source: Bloomberg

Investment-grade credit spreads have widened in recent days **but remain below levels of last October and well below levels seen during the 2020 pandemic (Exhibit 3).**

**Exhibit 3: Investment Grade Spreads**

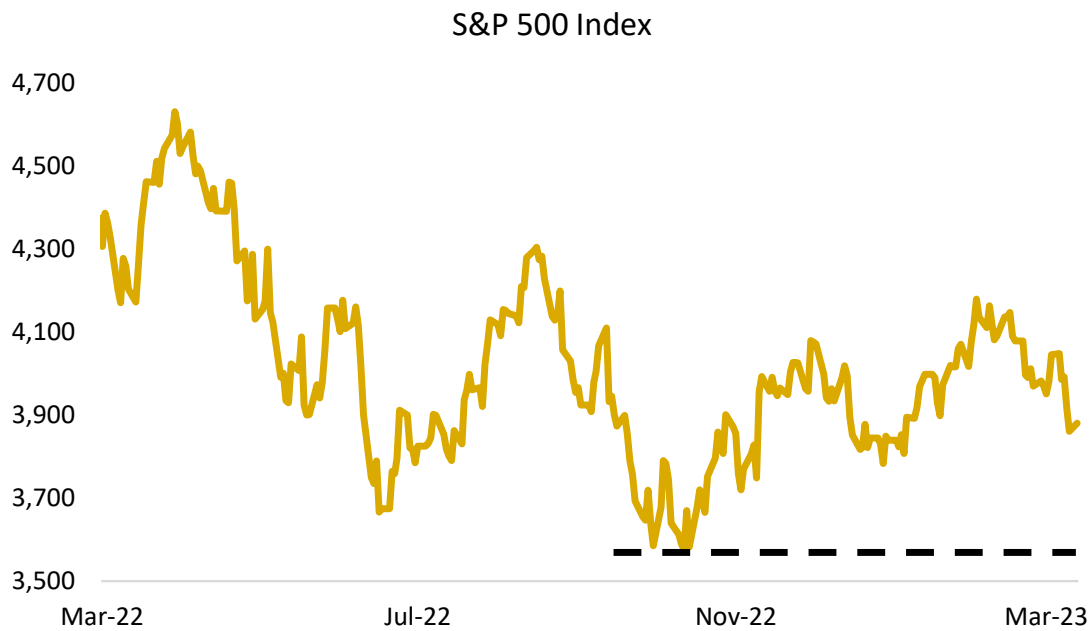
**US Investment-Grade Fixed Income  
Option Adjusted Spread in Basis Points**



Source: Bloomberg

**Equity Markets:** Risk assets already have proved volatile over the past year as the Fed tightened monetary policy. Events over the past week have compounded this volatility, but even with the recent selloff, the US stock market remains above the lows seen last October (Exhibit 4).

**Exhibit 4: US Equities**



Source: Bloomberg

**Bottom Line:** While it may be tempting to get out of markets during times of volatility, remember to keep a historical perspective and focus on the long-term. Reach out to your First Citizens partner with questions and join us for our [Making Sense market and economic update](#) on March 28<sup>th</sup> at 12 pm EDT. For our latest updates, sign up for updates delivered to your inbox [here](#).

<sup>i</sup> Federal Reserve Press Release, March 12, 2023, 6:15 pm EDT

Capital Management Group | First Citizens Bank | 8510 Colonnade Center Drive | Raleigh, NC 27615

**Brent Ciliano, CFA | SVP, Chief Investment Officer**

brent.ciliano@firstcitizens.com | 919.716.2650

**Phillip Neuhart | SVP, Director of Market and Economic Research**

phillip.neuhart@firstcitizens.com | 919.716.2403

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