ECONOMIC AND MARKET COMMENTARY

1st Quarter 2023

SMITH SHELLNUT WILSON
AN AFFILIATE OF b1BANK

SSW Research Department
chad.mckeithen@ssw1776.com
Office: (601) 315-8134
Website: www.ssw1776.com

OUR MISSION: Smith Shellnut Wilson is a registered investment adviser* specializing in managing investment portfolios for banks, individuals, corporations, foundations, and public entities. Smith Shellnut Wilson offers its clients skilled investment management and unremitting client service. Smith Shellnut Wilson is dedicated to the premise that client relationships and performance, not transactions, are the ultimate goals.

I. FIRST-QUARTER 2023 EQUITY MARKET RECAP

Domestic equity markets rallied during the first quarter with the technology-heavy Nasdaq leading the way up 17.05% for the quarter followed by the S&P 500, up 7.48% and the Russell 2000 only up 2.73%. International stocks generally fared better in the quarter with the MSCI Euro index up 13.70%, the Japan Nikkei up 8.75%, and the Chinese Hang Seng up 3.51%.

Breaking down the U.S. numbers unveils a concern for the future as the market returns were heavily weighted to the technology mega-cap names. The broader market indices, the S&P 500 and the Russell 2000, lagged the Nasdaq's 17.05% return by a large margin. Seven of the ten largest companies in the S&P 500 comprise 24% of that index. These include Apple, Microsoft, Amazon, Nvidia, Alphabet (formerly known as Google), Tesla and Meta (formerly known as Facebook). These companies had quarterly returns from a low of 17.21% to a high of 90.90% (and averaged 33.91% on a cap-weighted basis). If we back out the quarterly returns of these seven companies, the S&P 500's return actually was a negative 0.93%.

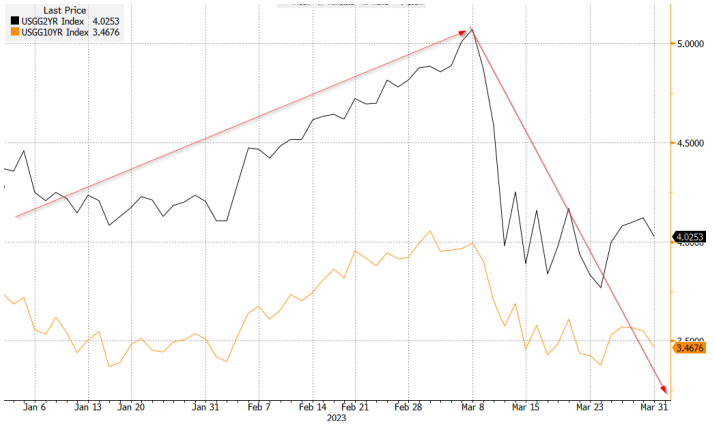
Our concern is that these seven companies, while large and impactful on our aggregate economy, do not represent an accurate picture of the health of the economy or of companies in general. This has potentially negative implications for future market returns as investors focus more on fundamentals and take profits on these seven names putting downside pressure on stocks overall.

While the Federal Reserve has attempted to manufacture a soft landing of the economy, they have an almost impossible task. Most likely, we are heading to a recession assuming we haven't already entered a recession. The failure of three significant banks during the quarter, Silvergate, Silicon Valley, and Signature has shaken confidence in the banking sector. During the quarter, the S&P Regional Banking Index was down 24.71% as investors shunned banks over liquidity concerns and commercial real estate exposure. We are already seeing signs of tightening credit standards at banks which will slow the economy even more, increasing the likelihood of some contractions in GDP.

II. FIRST-QUARTER 2023 BOND MARKET RECAP

This quarter was like a game that had a first and second half. The first half started as a continuation of 2022 with inflation concerns pushing bond prices lower and yields higher (see Chart 1 below). In fact, in February, inflation appeared so sticky that there were some economists forecasting that the FOMC would push the Fed Funds rate to 6% before year end. During the first week of March, the 2 and 10-year Treasuries peaked at 5.07% and 4.06%, respectively.

Chart 1: 1ST Quarter 2, 10-Yr Treasury Yields



Then came the second half of the quarter, where focus shifted dramatically. On March 10 and March 12, regulators closed Silicon Valley Bank and Signature Bank. Attention immediately shifted to the health of the banking sector and focus turned to systemic risk. Following the closures, rate forecasts did a complete 180. The Fed Fund futures market went from pricing in 2-3 more 2023 rate hikes to forecasting a drop from 5% to 4% (see Chart 2 on next page).

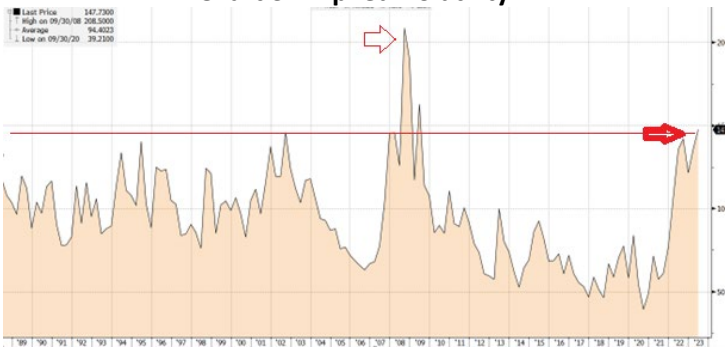
Uncertainty/volatility also spiked to levels not seen since 2008, during the financial crisis (see Chart 3 on next page). The increase in volatility drove up credit spreads, particularly in financial and high yield sectors.

Chart 2: Fed Fund Futures

MEETING PROBABILITIES

MEETING DATE	150-175	175-200	200-225	225-250	250-275	275-300	300-325	325-350	350-375	375-400	400-425	425-450	450-475	475-500	500-525
5/3/2023									0.0%	0.0%	0.0%	0.0%	0.0%	57.5%	42.5%
6/14/2023				0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	12.2%	54.3%	33.5%
7/26/2023	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	10.6%	48.7%	36.2%	4.4%
9/20/2023	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	10.0%	46.5%	37.0%	6.3%	0.3%
11/1/2023	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	7.9%	38.9%	38.9%	12.7%	1.5%	0.1%
12/13/2023	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	6.8%	34.5%	38.9%	16.4%	3.1%	0.3%	0.0%
1/31/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	5.8%	30.6%	38.3%	19.6%	5.0%	0.7%	0.0%	0.0%
3/20/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	5.2%	27.9%	37.5%	21.6%	6.6%	1.1%	0.1%	0.0%	0.0%
5/1/2024	0.0%	0.0%	0.0%	0.0%	0.5%	7.3%	28.8%	36.0%	20.2%	6.1%	1.0%	0.1%	0.0%	0.0%	0.0%
6/19/2024	0.0%	0.0%	0.0%	0.2%	3.5%	16.8%	32.0%	29.0%	14.0%	3.9%	0.6%	0.1%	0.0%	0.0%	0.0%
7/31/2024	0.0%	0.0%	0.2%	2.7%	13.5%	28.2%	29.7%	17.7%	6.3%	1.4%	0.2%	0.0%	0.0%	0.0%	0.0%
9/25/2024	0.1%	2.4%	12.4%	26.8%	29.6%	18.9%	7.5%	1.9%	0.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Chart 3: Implied Volatility

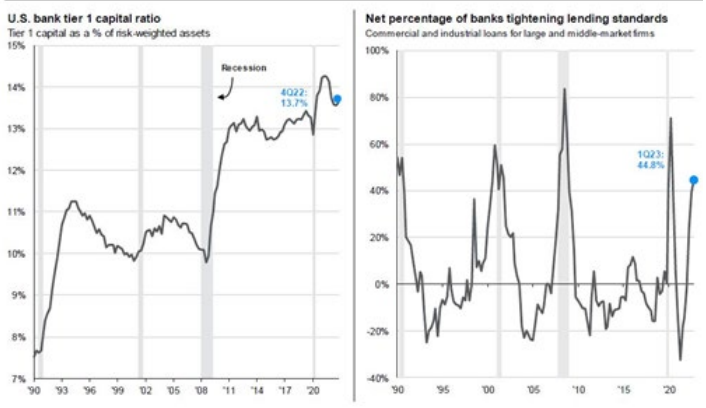


Even with the high level of uncertainty, bonds were up about 2% on aggregate. High quality bonds (Treasuries/Agencies) and short-duration bonds did very well while bonds exposed to credit had varied degrees of gains/losses. The first quarter gains come on the heels of the worst year in history for the bond market and the outlook is littered with uncertainty about credit risk.

III. US ECONOMY FACES RECESSION RISK AS REGIONAL BANK TURMOIL CREATES HEADWINDS

As we enter the second quarter of 2023, financial distress from regional bank turmoil has created new headwinds for the U.S. economy and increased the risk of recession later this year.

Bank Capitalization and Lending Sentiment



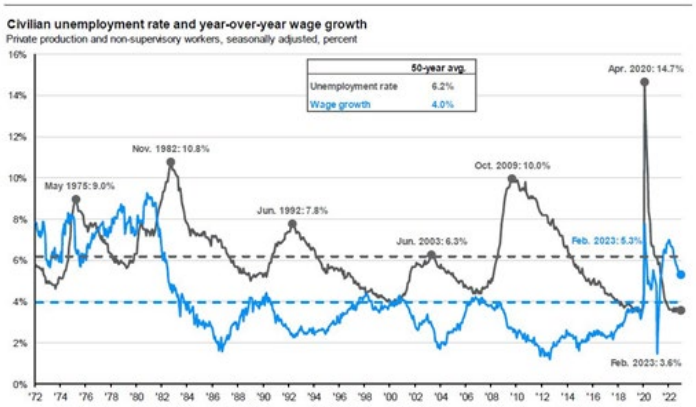
Business spending, in particular, could be hurt for two reasons: (1) businesses may slow hiring and capital spending plans due to increased recession worries, and (2) we are very likely to see a further tightening of bank lending conditions as banks focus on the quality of their balance sheets rather than on growth.

On the other hand, consumers will be largely unaffected by the bout of financial instability, but higher inflation and the lagged effects of less fiscal stimulus will continue to weigh on consumer spending. This year the personal saving rate has only averaged 4.7%, compared to its long-run average of 8.9%, and consumers have been running up their credit card balances.

The single-family housing market, while a relatively small part of the economy, has come under pressure from higher mortgage rates. Fortunately, there is a limit to how much further this can fall, given we still have a historically low housing supply. On trade, a moderation in the dollar and an improved growth backdrop for some of our major trading partners may support U.S. exports.

Overall, the banking system turmoil has underscored the vulnerabilities of an economy facing a rapid rise in interest rates in a short period of time. As the economy confronts these challenges, we will likely see weak GDP growth with a greater than 50% chance of tipping into a recession by year's end.

Unemployment and Wages



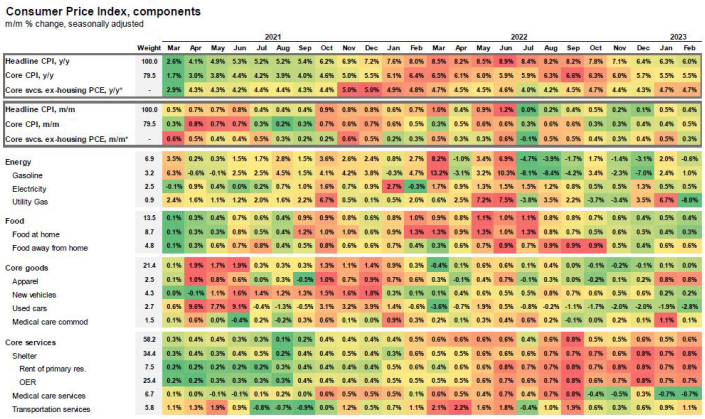
Despite a generally difficult economic environment, the labor market has remained strong, with an unemployment rate of 3.6% in February. However, there are signs that the labor market is losing momentum as job openings decrease and layoffs increase due to slower demand and higher costs. This has had an impact on wage growth, which has been growing slowly relative to inflation. The availability of workers may also limit how much unemployment can rise. Nonetheless, wage growth is expected to continue moderating, creating a sustainable reduction in inflation, and providing confidence to the Federal Reserve.

Last year, higher costs and receding demand led to a slump in corporate profits relative to a spectacular 2021. In the fourth quarter, S&P 500 operating earnings per share were down 13% from a year earlier and down 6% for all of 2022. Looking forward, consensus expectations for a double-digit gain in earnings this

year look too optimistic, and earnings will more likely be flat-to-down relative to 2022.

A recession would, of course, cause profits to fall further, and lower inflation tends to coincide with lower corporate profit growth, posing an additional headwind in the year ahead. However if a recession that eventually leads to less wage pressure and easier monetary policy materializes, it could set up a better long-term environment going forward.

Inflation Heatmap



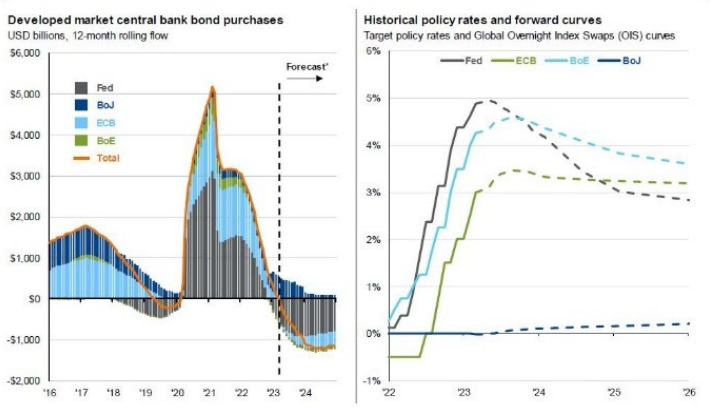
Consumer Price Index, components
m/m % change, seasonally adjusted

	Weight	2021 Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2022 Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2023 Jan	Feb
Headline CPI, y/y	100.0	2.6%	4.1%	4.9%	5.3%	5.2%	5.2%	5.4%	6.2%	6.9%	7.2%	7.6%	8.0%	8.5%	8.2%	8.5%	8.9%	8.4%	8.2%	8.2%	7.8%	7.1%	6.4%	6.3%	6.0%
Core CPI, y/y	79.5	1.7%	3.0%	3.8%	4.4%	4.2%	3.9%	4.0%	4.6%	5.0%	5.5%	6.1%	6.4%	6.5%	6.1%	6.0%	5.9%	5.9%	6.3%	6.6%	6.3%	6.0%	5.7%	5.5%	5.5%
Core svcs. ex-housing PCE, y/y*	-	2.9%	4.3%	4.3%	4.2%	4.4%	4.4%	4.3%	4.4%	5.0%	5.0%	4.9%	4.8%	4.7%	4.5%	4.5%	4.6%	4.0%	4.2%	4.5%	4.7%	4.4%	4.3%	4.7%	4.7%
Headline CPI, m/m	100.0	0.5%	0.7%	0.7%	0.8%	0.4%	0.4%	0.4%	0.9%	0.8%	0.8%	0.6%	0.7%	1.0%	0.4%	0.9%	1.2%	0.0%	0.2%	0.4%	0.5%	0.2%	0.1%	0.5%	0.4%
Core CPI, m/m	79.5	0.3%	0.8%	0.7%	0.7%	0.3%	0.2%	0.3%	0.7%	0.6%	0.7%	0.6%	0.5%	0.3%	0.5%	0.6%	0.6%	0.3%	0.6%	0.6%	0.3%	0.3%	0.4%	0.4%	0.5%
Core svcs. ex-housing PCE, m/m*	-	0.6%	0.5%	0.4%	0.4%	0.5%	0.3%	0.2%	0.2%	0.6%	0.5%	0.2%	0.3%	0.5%	0.3%	0.3%	0.6%	-0.1%	0.5%	0.5%	0.4%	0.3%	0.4%	0.5%	0.3%
Energy	6.9	3.5%	0.2%	0.3%	1.5%	1.7%	2.8%	1.5%	3.6%	2.6%	2.4%	0.8%	2.7%	8.2%	-1.0%	3.4%	6.9%	-4.7%	-3.9%	-1.7%	1.7%	-1.4%	-3.1%	2.0%	-0.6%
Gasoline	3.2	6.3%	-0.6%	-0.1%	2.5%	2.5%	4.5%	1.5%	4.1%	4.2%	3.8%	-0.3%	4.7%	13.2%	-3.1%	3.2%	10.3%	-8.1%	-4.4%	-4.2%	3.4%	-2.3%	-7.0%	2.4%	1.0%
Electricity	2.5	-0.1%	0.9%	0.4%	0.0%	0.2%	0.7%	1.0%	1.6%	0.7%	0.9%	2.7%	-0.3%	1.7%	0.9%	1.3%	1.5%	1.5%	1.2%	0.8%	0.5%	0.5%	1.3%	0.5%	0.5%
Utility Gas	0.9	2.4%	1.6%	1.1%	1.2%	2.0%	1.6%	2.2%	6.7%	0.5%	0.1%	0.5%	2.0%	0.6%	2.5%	7.2%	7.5%	-3.8%	3.5%	2.2%	-3.7%	-3.4%	3.5%	6.7%	-8.0%
Food	13.5	0.1%	0.3%	0.4%	0.7%	0.6%	0.4%	0.9%	0.9%	0.8%	0.6%	0.8%	1.0%	0.9%	0.8%	1.1%	1.0%	1.1%	0.8%	0.8%	0.7%	0.6%	0.4%	0.5%	0.4%
Food at home	8.7	0.1%	0.3%	0.3%	0.8%	0.5%	0.4%	1.2%	1.0%	1.0%	0.6%	0.9%	1.3%	1.3%	0.9%	1.3%	1.0%	1.3%	0.8%	0.7%	0.5%	0.6%	0.5%	0.4%	0.3%
Food away from home	4.8	0.1%	0.3%	0.6%	0.7%	0.8%	0.4%	0.5%	0.8%	0.6%	0.6%	0.7%	0.4%	0.3%	0.6%	0.7%	0.9%	0.7%	0.9%	0.9%	0.9%	0.5%	0.4%	0.6%	0.6%
Core goods	21.4	0.1%	1.9%	1.7%	1.9%	0.3%	0.3%	0.3%	1.3%	1.1%	1.4%	0.9%	0.3%	-0.4%	0.1%	0.6%	0.6%	0.1%	0.4%	0.0%	-0.1%	-0.2%	-0.1%	0.1%	0.0%
Apparel	2.5	0.1%	1.0%	0.8%	0.6%	0.0%	0.3%	-0.5%	1.0%	0.7%	0.9%	0.7%	0.6%	0.3%	-0.1%	0.4%	0.7%	-0.1%	0.3%	0.0%	-0.2%	0.1%	0.2%	0.8%	0.8%
New vehicles	4.3	0.0%	-0.1%	1.1%	1.6%	1.4%	1.2%	1.3%	1.5%	1.6%	1.8%	0.3%	0.1%	0.1%	0.4%	0.6%	0.5%	0.5%	0.8%	0.7%	0.6%	0.5%	0.6%	0.2%	0.2%
Used cars	2.7	0.6%	9.6%	7.7%	9.1%	-0.4%	-1.3%	-0.5%	3.1%	3.2%	3.9%	1.4%	-0.6%	-3.6%	-0.7%	1.9%	0.5%	-0.8%	-0.2%	-1.1%	-1.7%	-2.0%	-2.0%	-1.9%	-2.8%
Medical care commod	1.5	0.1%	0.6%	0.0%	-0.4%	0.2%	-0.2%	0.3%	0.6%	0.1%	0.0%	0.9%	0.3%	0.2%	0.1%	0.3%	0.4%	0.6%	0.2%	-0.1%	0.0%	0.2%	0.1%	1.1%	0.1%
Core services	58.2	0.3%	0.4%	0.4%	0.3%	0.3%	0.1%	0.2%	0.4%	0.4%	0.4%	0.4%	0.5%	0.6%	0.6%	0.6%	0.6%	0.4%	0.6%	0.8%	0.5%	0.5%	0.6%	0.5%	0.6%
Shelter	34.4	0.3%	0.4%	0.3%	0.4%	0.5%	0.2%	0.4%	0.4%	0.5%	0.4%	0.3%	0.6%	0.5%	0.5%	0.6%	0.6%	0.6%	0.7%	0.7%	0.7%	0.6%	0.8%	0.7%	0.8%
Rent of primary res.	7.5	0.2%	0.2%	0.2%	0.2%	0.2%	0.3%	0.4%	0.4%	0.4%	0.4%	0.5%	0.6%	0.4%	0.6%	0.6%	0.8%	0.7%	0.7%	0.8%	0.7%	0.8%	0.8%	0.7%	0.8%
OER	25.4	0.2%	0.2%	0.3%	0.3%	0.3%	0.3%	0.4%	0.4%	0.4%	0.4%	0.5%	0.5%	0.5%	0.5%	0.6%	0.7%	0.6%	0.7%	0.8%	0.6%	0.7%	0.8%	0.7%	0.7%
Medical care services	6.7	0.1%	0.0%	-0.1%	-0.1%	0.1%	0.2%	0.0%	0.6%	0.5%	0.5%	0.5%	0.1%	0.6%	0.5%	0.4%	0.7%	0.4%	0.7%	0.8%	-0.4%	-0.5%	0.3%	-0.7%	-0.7%
Transportation services	5.8	1.1%	1.3%	1.9%	0.9%	-0.8%	-0.7%	-0.9%	0.0%	1.2%	0.5%	0.7%	1.1%	2.1%	2.2%	1.6%	1.8%	-0.4%	1.0%	1.9%	0.6%	0.3%	0.6%	0.9%	1.1%

A sustained inflation downtrend is now underway after hot inflation squeezed consumer wallets for the better part of the last two years and contributed to a swift rise in interest rates. Headline CPI inflation has come down from its peak of 8.9% year-over-year last June to 6.0% in February. A modest monthly pace of inflation has been sustained for the past eight months.

While inflation may not be falling as fast as the Fed would like, it is gradually falling to much more manageable levels. We expect CPI inflation will decline to 4% year-over-year by the end of this year and towards 2-3% by the end of 2024, even without a U.S. recession.

Developed Market Monetary Policy



In response to rising inflation worldwide, several central banks, including the Federal Reserve, are tightening policy by decreasing their balance sheets and increasing interest rates. However, if inflation subsides and economic conditions deteriorate, looser policies may be implemented. In Europe, despite initial concerns about an energy crisis, business confidence and economic activity have improved, leading to additional rate hikes in March. However, recent problems in the European financial sector have resulted in more dovish forward guidance. The Bank of Japan is an exception to the trend of tightening policy. The future path of global policy rates is uncertain, but current efforts have brought rates to more normal levels, which will impact the global investment landscape.

It is likely that the extended period of U.S. dollar strength is coming to a close. The dollar had experienced a decline of roughly 8% from its peak in September 2019, which marks a shift from the conditions that led to the dollar's rise in the previous year. Factors such as the tightening of interest rates and varying growth rates that contributed to the dollar's rise are now receding, paving the way for a new cycle of dollar weakness.

Looking ahead, there could be sustained periods of appreciation due to the dollar's status as a safe-haven asset during periods of uncertainty. However, economic forces are expected to gradually drive the dollar down in the long term, and the narrowing growth and interest rate differentials should prevent any significant periods of appreciation in the near term.

Due to various factors, such as inflation, political turmoil, and economic instability, consumer sentiment hit a record low in 2022. This year, concerns about a potential banking crisis and a sluggish economy may further negatively impact sentiment, even though there have been some slight improvements. When people are feeling pessimistic, they tend to sell off their investments, but attempting to time the market in this way is typically unwise. Past data shows that investing at peaks or troughs in consumer sentiment has yielded varying returns, but it is unclear what will happen in the future. Instead of focusing on emotions and market timing, it's wiser for investors to concentrate on their portfolios' holdings and valuations.

IV. 10 DAYS THAT HAVE ROILED MARKETS: A TIMELINE OF THE BANKING CHAOS

Article by The New York Times. Written By: Vivian Giang and Mike Dang Date: March 20, 2023

The collapse of Silicon Valley Bank prompted regulators to move to contain the fallout. Since then, a second bank has failed, another was bailed out and a Swiss giant was taken over by a rival.

On March 10, Silicon Valley Bank, one of the most prominent lenders in the start-up ecosystem, collapsed.

The turmoil has led to the seizure of Silicon Valley Bank and Signature Bank, the private-sector bailout of the U.S. regional lender First Republic Bank and the takeover of the troubled Swiss bank Credit Suisse by its rival, UBS.

Here is a timeline of major events related to the turbulence in the global banking industry.

March 8

- Silvergate Capital, a cryptocurrency-focused bank, **announced it would cease operations and liquidate its assets** after a bank run forced the California lender to sell a chunk of its debt securities.
- Silicon Valley Bank concerned investors when it said it needed to shore up its balance sheet and raise $2 billion in capital. It was **forced to sell a bond portfolio at a $1.8 billion loss**.
- In a letter to customers, Greg Becker, the chief executive of Silicon Valley Bank, said the bank enjoyed the "financial position to weather sustained market pressures," but he noted that customer deposits had come in lower than forecast in February. **Moody's, a credit ratings firm, downgraded the bank's bond rating** and slashed its outlook to negative, from stable.

March 9

- During a conference call, Mr. Becker urged venture capital firms to stay calm. Panic spread on social media among investors. Bill Ackman, the billionaire investor, suggested that **Silicon Valley Bank could fail and need a bailout.** In a note sent to clients, a Silicon Valley Bank executive wrote that the bank was "actually quite sound, and it's disappointing to see so many smart investors tweet otherwise."
- Silicon Valley Bank's announcement the day before prompted another wave of customer withdrawals, and **its stock plummeted 60 percent**.

March 10

- **Silicon Valley Bank failed after a run on deposits.** It reportedly worked with financial advisers until the morning to find a buyer. By midday, regulators took over Silicon Valley Bank, the nation's 16th-largest bank, and **the Federal Deposit Insurance Corporation was named the receiver**. The failure of the 40-year-old institution became the largest bank crash since the 2008 financial crisis, and it put nearly $175 billion in customer deposits under the regulator's control.
- Shock from Silicon Valley's woes reverberated through parts of the banking sector, and **investors started to dump bank stocks**, including those of First Republic, Signature Bank and Western Alliance. Many of those institutions cater to niche clients. The nation's largest banks appeared insulated from the fallout.
- **Treasury Secretary Janet L. Yellen reassured investors** that the banking system was resilient.
- Signature Bank, a 24-year-old, New York-based institution that lent largely to real estate companies and law firms, saw **a torrent of deposits leaving its coffers**.

March 12

- To prevent the spread of banking contagion, **regulators seized Signature Bank**. To some extent, the bank, which had 40 branches, was a victim of the panic surrounding Silicon Valley Bank.
- The Federal Reserve, the Treasury Department and the F.D.I.C. announced jointly that "**depositors will have access to all of their money** starting Monday, March 13" and that no losses from either bank's failure "will be borne by the taxpayer."
- The **F.D.I.C. invoked a "systemic risk exception,"** which allows the government to pay back uninsured depositors to prevent dire consequences for the economy or financial instability. And the Fed announced that it would set up an emergency lending program, with approval from the Treasury, to provide additional funding to eligible banks and help ensure that they were able to "meet the needs of all their depositors."

March 13

- President Biden, in a speech, said **the U.S. banking system was safe and insisted taxpayers would not pay for any bailouts**. "This is an important point," Mr. Biden emphasized. "No losses will be borne by the taxpayers."
- **Regional bank stocks plunged**, with First Republic taking the worst beating, dropping 60 percent.
- HSBC said it would **buy Silicon Valley Bank's British subsidiary**. A buyer was being sought for Silicon Valley Bank's holding company, which includes asset management and a securities division, and excludes the commercial bank now under F.D.I.C. control.

March 14

- Bank stocks **recovered some of their losses**.
- The Justice Department and the Securities and Exchange Commission reportedly **opened investigations** into the collapse of Silicon Valley Bank.

March 15

- **Shares of Credit Suisse tumbled by 24 percent,** a record low. The Swiss National Bank, Switzerland's central bank, said it would step in to provide financial support to Credit Suisse if necessary.

- On Wall Street, **the S&P was down by 0.6 percent** at the close of trading, reversing some of the previous day's rally as investors' fears over the health of the banking industry resurfaced.

March 16

- **First Republic Bank received $30 billion** in deposits from nearly a dozen of the United States' biggest banks including JPMorgan Chase, Wells Fargo and Morgan Stanley. The beleaguered bank's shares closed up 10 percent.
- Credit Suisse said it would **borrow $54 billion** from Switzerland's central bank.
- The Federal Reserve announced that, as of Wednesday, **banks had borrowed $11.9 billion** from the emergency loan program it unveiled on Sunday to shore up the banking system.
- Janet L. Yellen **testified before the Senate's Finance Committee** and sought to reassure the public that America's banks remain "sound."

March 17

- The shares of many banks continued their **dizzying slide**, erasing gains from the day before.
- First Republic, the beleaguered regional lender, on Friday **lost a third of its already depressed value**. The S&P 500-stock index fell about 1.1 percent — the week's worst day of trading.

March 19

- Switzerland's largest bank, **UBS, agreed to take over its troubled rival Credit Suisse** for $3.2 billion.
- To help make the deal happen, the **Swiss National Bank agreed to lend up to 100 billion Swiss francs to UBS**. And the Swiss financial regulatory agency wiped out $17 billion worth of Credit Suisse's bonds and eliminated the need for UBS shareholders to vote on the deal.
- The Federal Reserve and five other central banks took steps to make sure dollars would remain readily available in a move intended to **ease the strain in the global financial system**.
- The Federal Deposit Insurance Corporation said it had entered into an **agreement to sell the 40 former branches of Signature Bank**, which was taken over by U.S. regulators on March 12, to New York Community Bancorp.

V. DON'T LET SILICON VALLEY BANK'S FINANCIAL CATASTROPHE SPILL OVER TO THESE CRUCIAL BANKS

Article by Yahoo! Finance. Written By: Earl Wright, CEO and Chairman of the Board of Directors of AMG National Trust Bank, and Alfredo Ortiz, President and CEO of Job Creators Network Date: March 28, 2023

The federal response to the ongoing banking crisis may end up having a big impact on the nation's smallest banks that bear no responsibility for the turmoil. Community banks have an outsized impact on local economies throughout the country, so hamstringing them with new costs would have broad consequences.

Community banks are financially well-positioned, carrying more short-maturity, local loans than their bigger counterparts that have often loaded up on Treasuries and mortgage-backed securities, which have declined in value due to aggressive Federal Reserve rate hikes.

Yet community banks' loan-making ability is threatened by bank depositors transferring tens of billions of dollars from small to large institutions in a perceived flight to safety. Bank of America alone received $15 billion in new deposits in the days following Silicon Valley Bank and Signature Bank's collapse.

Community banks must also pay a Federal Deposit Insurance Corp. "special assessment" imposed on all banks to fund SVB and Signature Bank's bailouts even though they played no role in their failures. New regulations and fees coming out of this crisis would disproportionately hurt small banks compared to their large competitors who can afford to treat them as a line-item cost. According to Goldman Sachs, small banks will reduce lending by 15% to 40% in the wake of this crisis.

Some commentators and policymakers have responded to these hurdles facing community banks. Entrepreneur and "Shark Tank" investor Kevin O'Leary said recently, "The truth is, we don't need regional banks." Investor Bob Doll echoed this sentiment on Fox News, pointing out how America has far more banks than Japan or Canada, where banks are little more than government-regulated utilities.

Treasury Secretary Janet Yellen also seems unconcerned. During her testimony before the U.S. Senate last week, Sen. James Lankford, R-Okla., asked Yellen, "What is your plan to keep large depositors from moving their money from community banks to large banks?" Yellen had no answer.

Sen. Langford also asked Yellen whether community banks would be bailed out if they ran into similar troubles as SVB and Signature. Yellen responded that they would not. Only banks that pose a "systemic risk" would get this treatment. In other words, large financial institutions with elite relationships in Washington benefit from this backstop at the expense of community banks.

This shortsighted perspective ignores small banks' big role in the U.S. economy. They make local loans based on relationships, not algorithms. They offer personal service, not 1-800 numbers. They keep money within communities, purchasing local bonds and funding local projects rather than sending deposits to New York or San Francisco.

For instance, AMG National Trust bank offers 90% of its loans to the Front Range of Colorado. Community banks have a symbiotic relationship with their borrowers and communities where all parties benefit together and are vested in seeing each other succeed. These institutions are the lifeblood of free market capitalism and economic growth.

Community banks provide roughly 60% of all small business loans and more than 80% of farm loans. Small banks also stepped up to deliver pandemic-era Paycheck Protection Program loans while many big banks dragged their feet. They serve rural America; approximately half of community banks are located in counties with fewer than 50,000 people.

Community banks are already struggling from an increased regulatory environment, including Current Expected Credit Losses (CECL) requirements, additional reporting on capital ratios, and concentrated oversight on general accepted banking practices that have disproportionately impacted small banks. Between 2000 and 2021, the number of banks nationwide fell from 8,315 to 4,236. Between 1985 and 2011, 183 new banks started each year on average, yet only four started annually between 2012 and 2019 as the industry consolidated.

Some bankers have simply chosen to close up shop, deciding that continuing to serve their communities is not worth the regulatory burden that has little to nothing to do with banking safety in their regions. For many community banks, more regulation and fees could be the final straw.

To ensure community banks can continue providing loan services for their communities, policymakers should exempt them from new fees and regulations coming out of this crisis. Research from the Minneapolis Fed finds that the costs associated with adding only two compliance employees to bank payrolls would make one-third of community banks unprofitable.

Protecting small banks from new costs, in recognition of their key role in the U.S. economy and lack of blame for this crisis, can ensure they continue to make the loans on which small businesses and local communities depend.

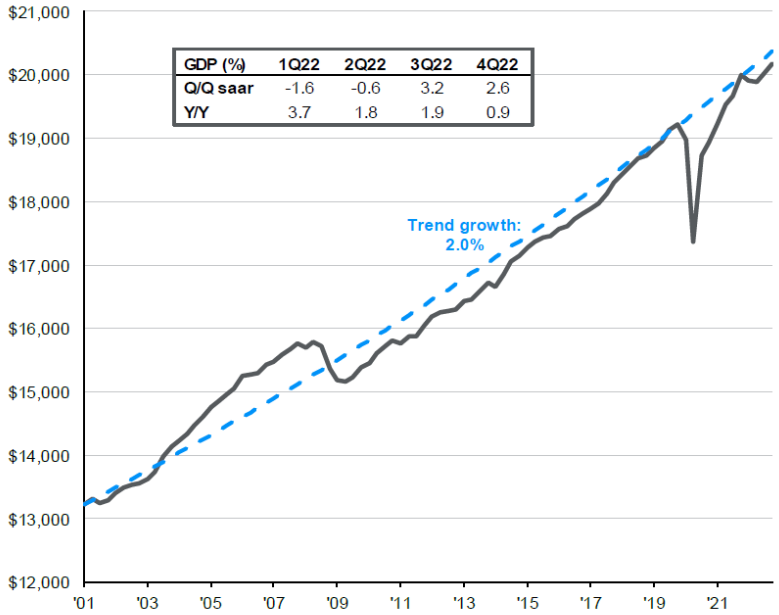
The sources of the information found in this commentary are the SSW Research Department, Bloomberg, "10 Days That Have Roiled Markets: A Timeline of the Banking Chaos" article by Vivian Giang and Mike Dang, The New York Times, and "Don't Let Silicon Valley Bank's Financial Catastrophe Spill Over to These Crucial Banks" Yahoo! Finance article by Earl Wright and Alfredo Ortiz.

Economy

Economic growth and the composition of GDP

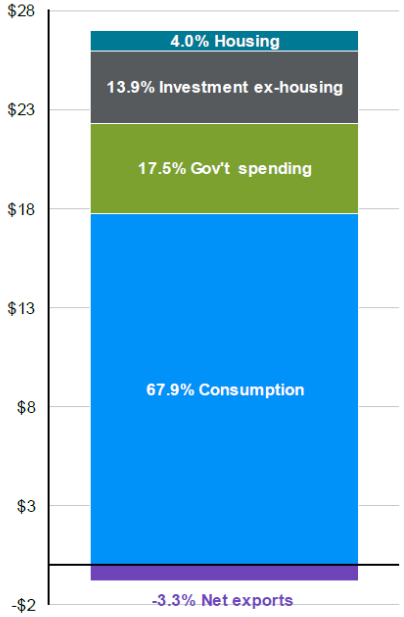
Real GDP

Billions of chained (2012) dollars, seasonally adjusted at annual rates



Components of GDP

4Q22 nominal GDP, USD trillions



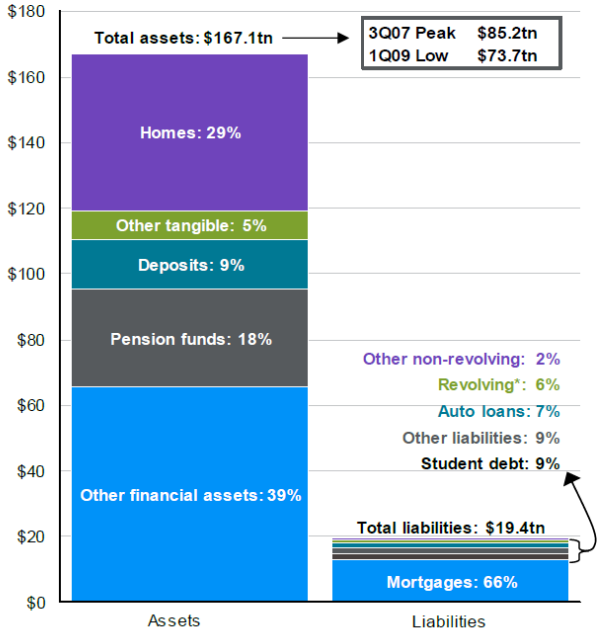
Source: BEA, FactSet, J.P. Morgan Asset Management. Values may not sum to 100% due to rounding. Trend growth is measured as the average annual growth rate from business cycle peak 1Q01 to business cycle peak 4Q19.
Guide to the Markets – U.S. Data are as of March 31, 2023.

Economy

Consumer finances

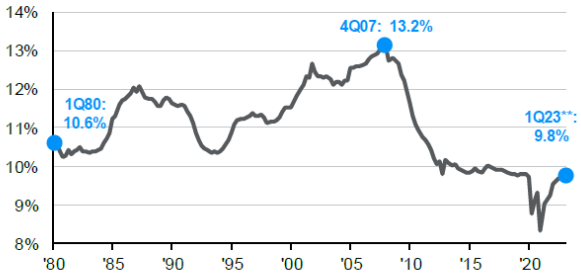
Consumer balance sheet

4Q22, USD trillions, not seasonally adjusted



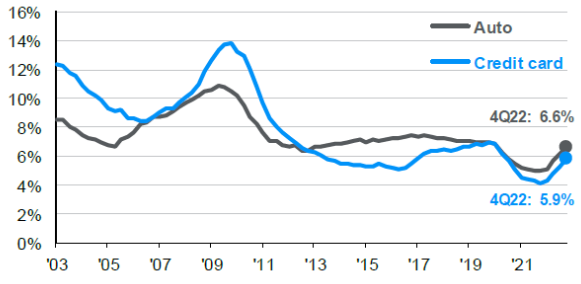
Household debt service ratio

Debt payments as % of disposable personal income, SA



Flows into early delinquencies, auto and credit card loans

% of balance delinquent 30+ days



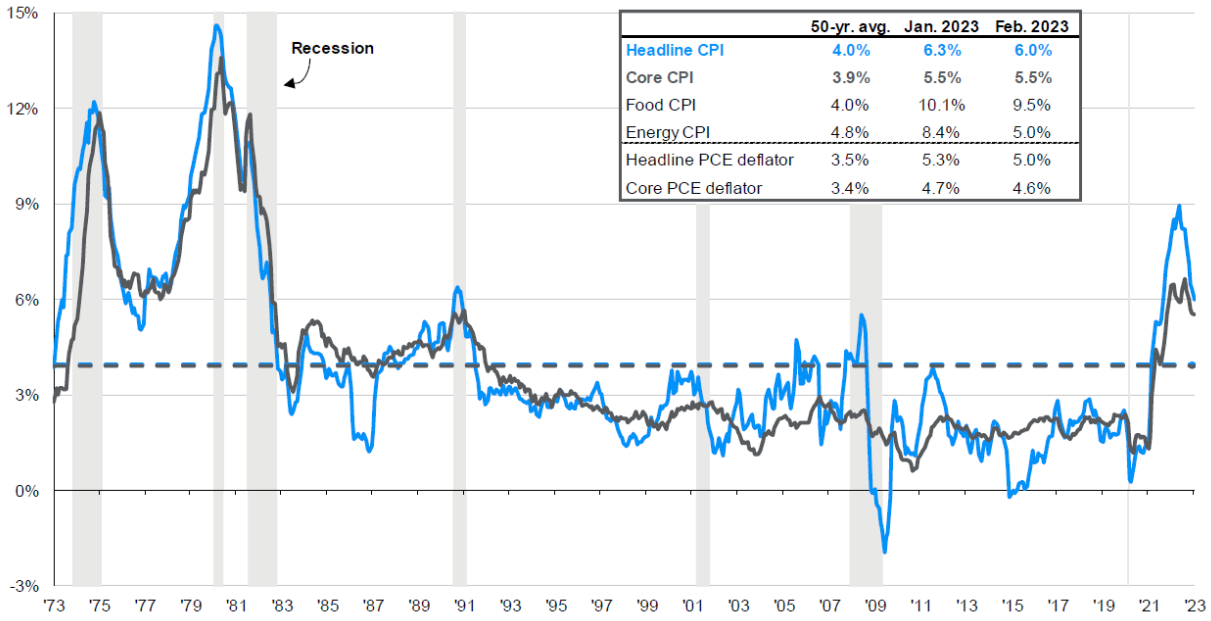
Source: FactSet, FRB, J.P. Morgan Asset Management; (Top right) BEA; (Bottom right) Equifax, New York Fed.
Data include households and nonprofit organizations. SA – seasonally adjusted. *Revolving includes credit cards. Values may not sum to 100% due to rounding. **1Q23 figures for debt service ratio are J.P. Morgan Asset Management estimates.
Guide to the Markets – U.S. Data are as of March 31, 2023.

Economy

Inflation

CPI and core CPI

% change vs. prior year, seasonally adjusted



	50-yr. avg.	Jan. 2023	Feb. 2023
Headline CPI	4.0%	6.3%	6.0%
Core CPI	3.9%	5.5%	5.5%
Food CPI	4.0%	10.1%	9.5%
Energy CPI	4.8%	8.4%	5.0%
Headline PCE deflator	3.5%	5.3%	5.0%
Core PCE deflator	3.4%	4.7%	4.6%

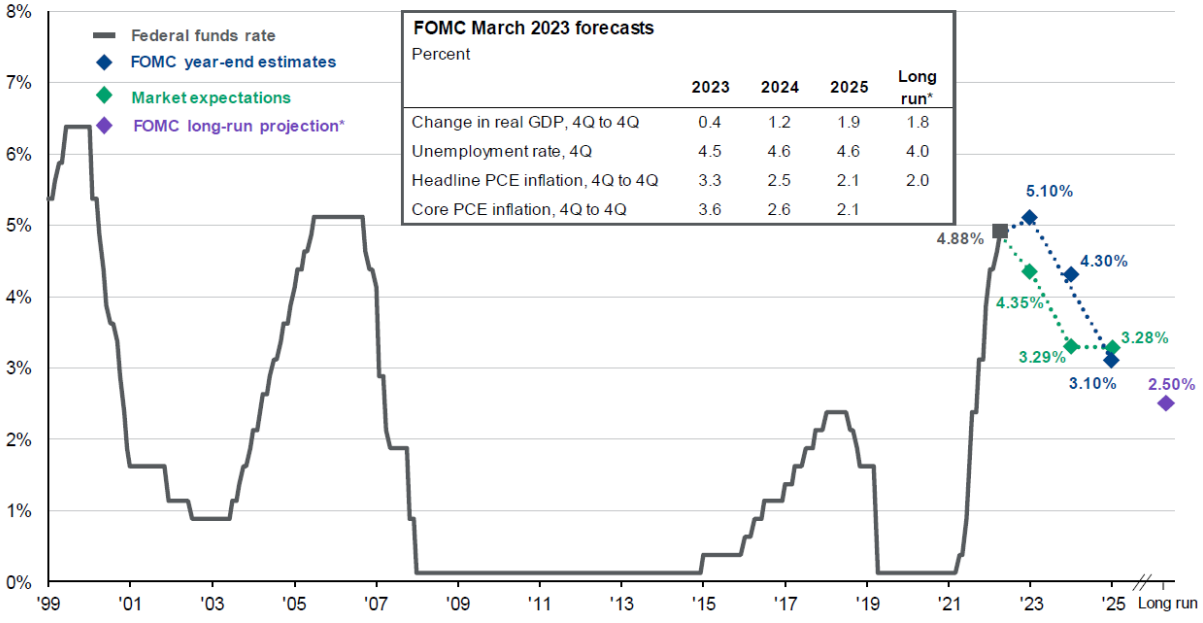
Source: BLS, FactSet, J.P. Morgan Asset Management.
CPI used is CPI-U and values shown are % change vs. one year ago. Core CPI is defined as CPI excluding food and energy prices. The Personal Consumption Expenditure (PCE) deflator employs an evolving chain-weighted basket of consumer expenditures instead of the fixed-weight basket used in CPI calculations.
Guide to the Markets – U.S. Data are as of March 31, 2023.

Fixed Income

The Fed and interest rates

Federal funds rate expectations

FOMC and market expectations for the federal funds rate



FOMC March 2023 forecasts

Percent

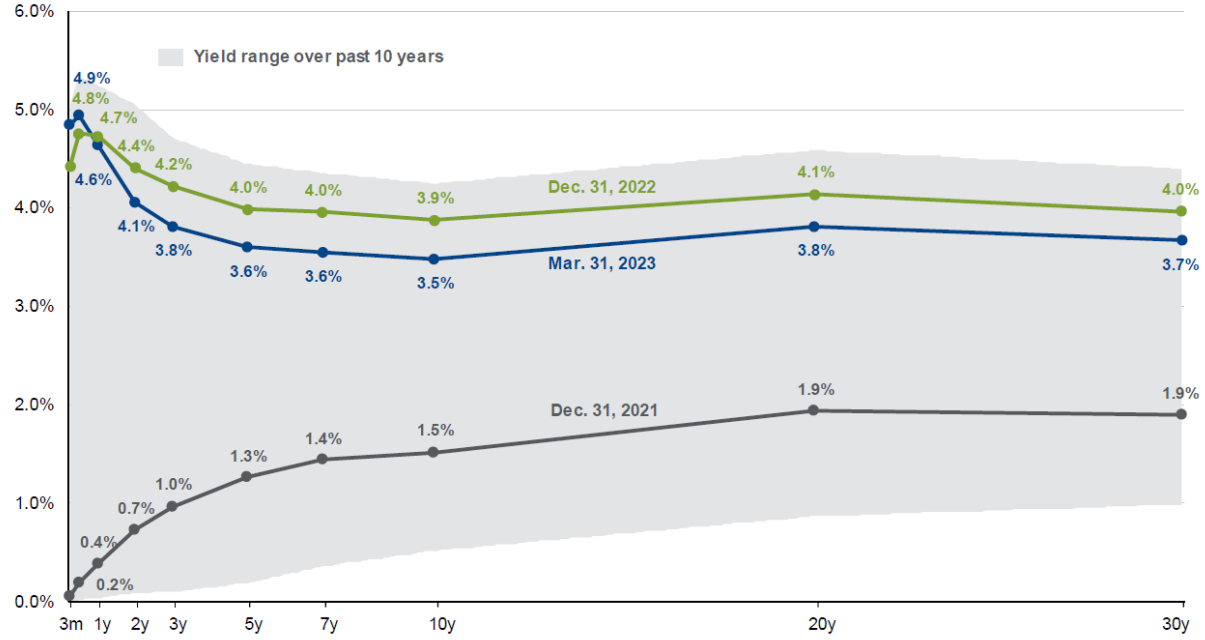
	2023	2024	2025	Long run*
Change in real GDP, 4Q to 4Q	0.4	1.2	1.9	1.8
Unemployment rate, 4Q	4.5	4.6	4.6	4.0
Headline PCE inflation, 4Q to 4Q	3.3	2.5	2.1	2.0
Core PCE inflation, 4Q to 4Q	3.6	2.6	2.1	

Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management.
Market expectations are based off of the respective Federal Funds Futures contracts for December expiry. *Long-run projections are the rates of growth, unemployment and inflation to which a policymaker expects the economy to converge over the next five to six years in absence of further shocks and under appropriate monetary policy. Forecasts are not a reliable indicator of future performance. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated.
Guide to the Markets – U.S. Data are as of March 31, 2023.

Fixed Income

Yield curve

U.S. Treasury yield curve

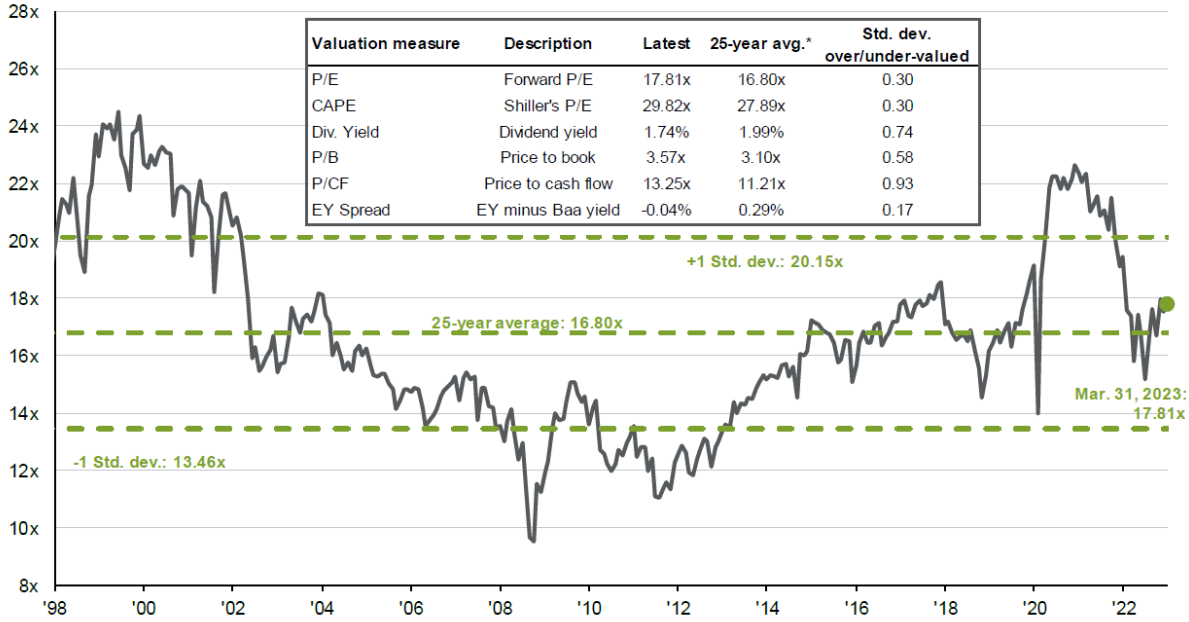


Source: FactSet, Federal Reserve, J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of March 31, 2023.

Equities

S&P 500 valuation measures

S&P 500 Index: Forward P/E ratio



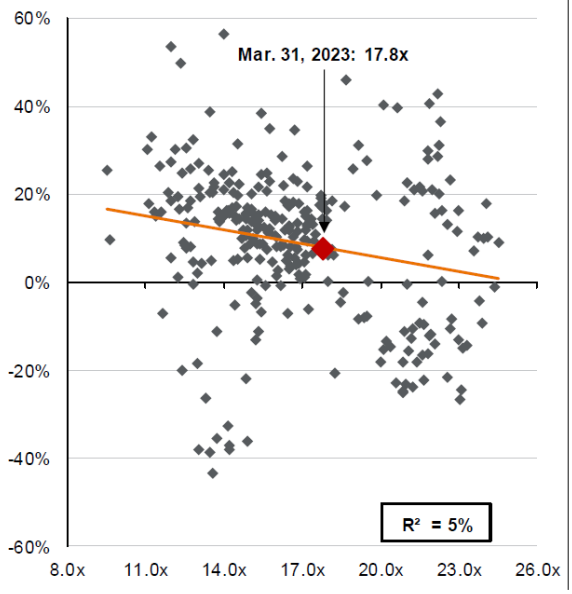
Valuation measure	Description	Latest	25-year avg.*	Std. dev. over/under-valued
P/E	Forward P/E	17.81x	16.80x	0.30
CAPE	Shiller's P/E	29.82x	27.89x	0.30
Div. Yield	Dividend yield	1.74%	1.99%	0.74
P/B	Price to book	3.57x	3.10x	0.58
P/CF	Price to cash flow	13.25x	11.21x	0.93
EY Spread	EY minus Baa yield	-0.04%	0.29%	0.17

Source: FactSet, FRB, Refinitiv Datastream, Robert Shiller, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management.
Price-to-earnings is price divided by consensus analyst estimates of earnings per share for the next 12 months as provided by IBES since March 1998 and by FactSet since January 2022. Current next 12-months consensus earnings estimates are $228. Average P/E and standard deviations are calculated using 25 years of history. Shiller's P/E uses trailing 10-years of inflation-adjusted earnings as reported by companies. Dividend yield is calculated as the next 12-months consensus dividend divided by most recent price. Price-to-book ratio is the price divided by book value per share. Price-to-cash flow is price divided by NTM cash flow. EY minus Baa yield is the forward earnings yield (consensus analyst estimates of EPS over the next 12 months divided by price) minus the Moody's Baa seasoned corporate bond yield. Std. dev. over-/under-valued is calculated using the average and standard deviation over 25 years for each measure. *P/CF is a 20-year average due to cash flow availability.
Guide to the Markets – U.S. Data are as of March 31, 2023.

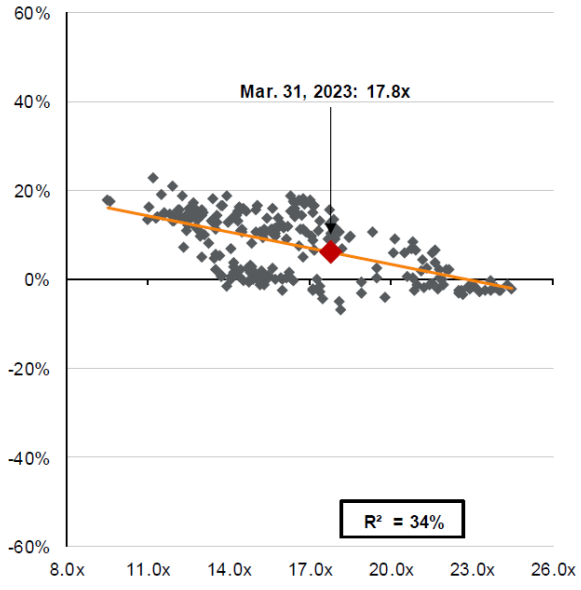
P/E ratios and equity returns

Equities

Forward P/E and subsequent 1-yr. returns
S&P 500 Total Return Index



Forward P/E and subsequent 5-yr. annualized returns
S&P 500 Total Return Index

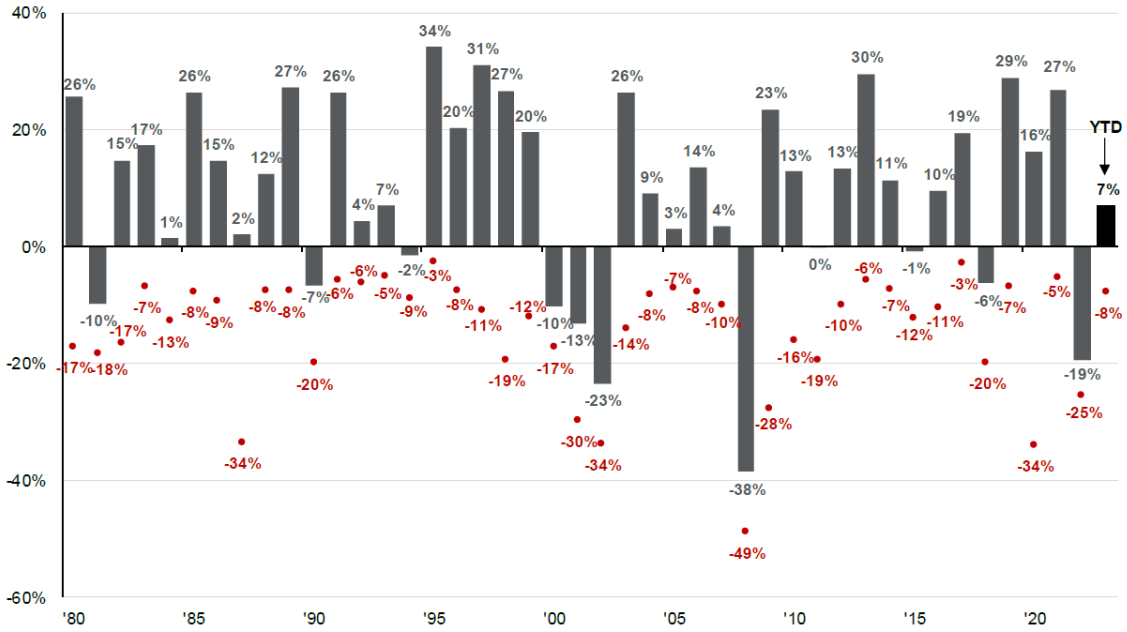


Source: FactSet, Refinitiv Datastream, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management.
Returns are 12-month and 60-month annualized total returns, measured monthly, beginning 2/28/98. R^2 represents the percent of total variation in total returns that can be explained by forward price-to-earnings ratios. Price-to-earnings is price divided by consensus analyst estimates of earnings per share for the next 12 months as provided by IBES since February 1998 and by FactSet since January 2022.
Guide to the Markets – U.S. Data are as of March 31, 2023.

Annual returns and intra-year declines

Equities

S&P intra-year declines vs. calendar year returns
Despite average intra-year drops of 14.3%, annual returns were positive in 32 of 43 years



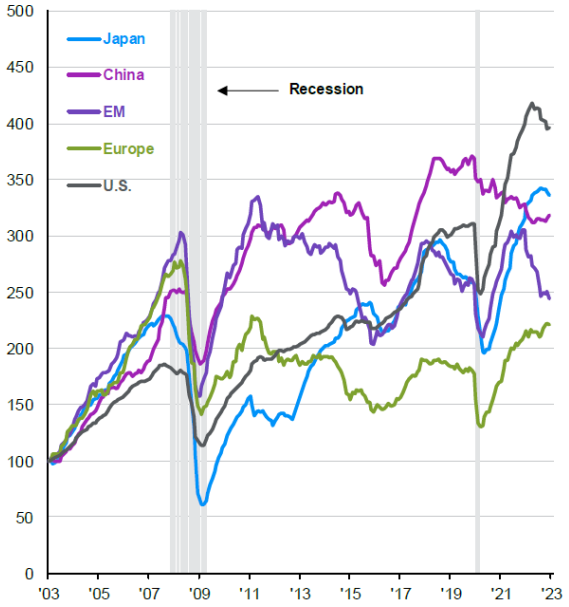
Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.
Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2022, over which time period the average annual return was 8.7%.
Guide to the Markets – U.S. Data are as of March 31, 2023.

International

International equity earnings and valuations

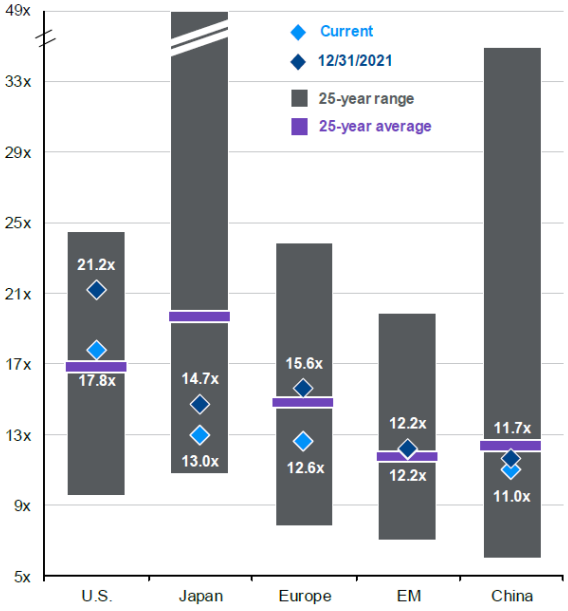
Global earnings estimates

Mar. 2003 = 100, next 12 months consensus estimates, U.S. dollars



Global valuations

Current and 25-year next 12 months price-to-earnings ratio



Source: FactSet, MSCI, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management.
Next 12 months consensus estimates are based on pro-forma earnings and are in U.S. dollars. MSCI Europe includes the eurozone as well as countries not in the currency bloc, such as Norway, Sweden, Switzerland and the UK (which collectively make up 44% of the overall index). Past performance is not a reliable indicator of current and future results.
Guide to the Markets – U.S. Data are as of March 31, 2023.

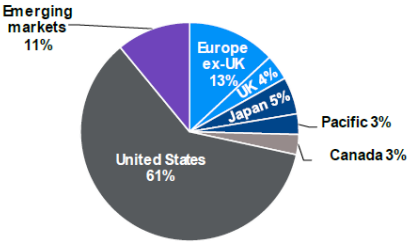
International

Global equity markets

Returns	2023		2022		15-years	
	Local	USD	Local	USD	Ann.	Beta
Regions						
U.S. (S&P 500)	-	7.5	-	-18.1	8.8	0.9
AC World ex-U.S.	6.3	7.0	-9.2	-15.6	2.0	1.0
EAFE	7.7	8.6	-6.5	-14.0	2.3	1.0
Europe ex-UK	10.5	12.2	-12.2	-17.3	2.4	1.2
Emerging markets	3.8	4.0	-15.2	-19.7	1.0	1.1
Selected Countries						
Japan	7.3	6.4	-4.1	-16.3	2.5	0.7
United Kingdom	3.2	6.1	7.2	-4.8	1.4	1.0
France	12.7	14.7	-6.9	-12.7	2.8	1.2
Canada	4.4	4.5	-5.8	-12.2	3.0	0.7
Germany	12.8	14.8	-16.5	-21.6	0.9	1.3
China	5.1	4.7	-20.6	-21.8	0.6	1.0
India	-6.9	-6.3	3.0	-7.5	2.4	1.2
Korea	12.9	9.7	-24.4	-28.9	1.6	1.3
Brazil	-6.9	-3.1	8.6	14.6	-2.1	1.4

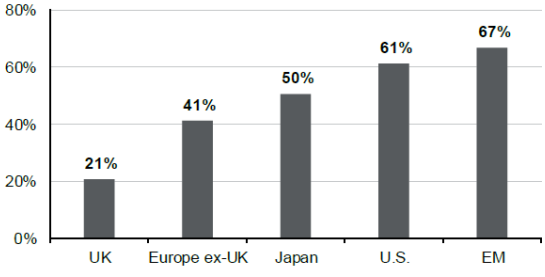
Weights in MSCI All Country World Index

% global market capitalization, float adjusted



Revenue exposure vs. country of listing

% of total revenue from home countries



Source: FactSet, Federal Reserve, MSCI, Standard & Poor's, J.P. Morgan Asset Management. All return values are MSCI Gross Index data. 15-year history based on USD returns. 15-year return and beta figures are calculated for the time period 12/31/2007 to 12/31/2022. Beta is for monthly returns relative to the MSCI AC World Index. Annualized volatility is calculated as the standard deviation of quarterly returns multiplied by the square root of 4. Chart is for illustrative purposes only. Please see disclosure page for index definitions. Past performance is not a reliable indicator of current and future results. Revenue exposure vs. country of listing is as of 3/31/2023.
Guide to the Markets – U.S. Data are as of March 31, 2023.