



**Wealth Management**  
Dominion Securities

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### **First Quarter 2023**

This year's first quarter was somewhat topsy turvy. The collapse in March of Silicon Valley Bank, the 16<sup>th</sup> largest bank in the USA, followed days later by Signature Bank of New York, the 19<sup>th</sup> largest bank, were the largest bank failures since the Great Financial Crisis of 2008. The run on those two banks had different origins. SVB's problem was that their long bond assets were mismatched with their not sticky short-term deposits from their technology company customers (a couple of clicks of the mouse and the deposits can be gone). For its part, Signature had gained a reputation for accepting crypto deposits and for financing commercial real estate. Those two were joined shortly after by 167-year-old Credit Suisse, a global systemically important bank, that after years of problems, was forced to merge with UBS Group to form a Swiss banking giant.

The immediate consequence of the bank failures was an abrupt turn in interest rates. As illustrated in the chart below, the yield on the two-year U.S. Treasury bond, which is a good measure of the market's interpretation of future Federal Reserve interest rate moves, had risen to 5.06% in early March and then, after the bank failures, the yield on the two-year plummeted to 3.77% late in the month and ended March at 4.06%. That was the biggest three day decline in bond yields since the stock market crash in 1987.

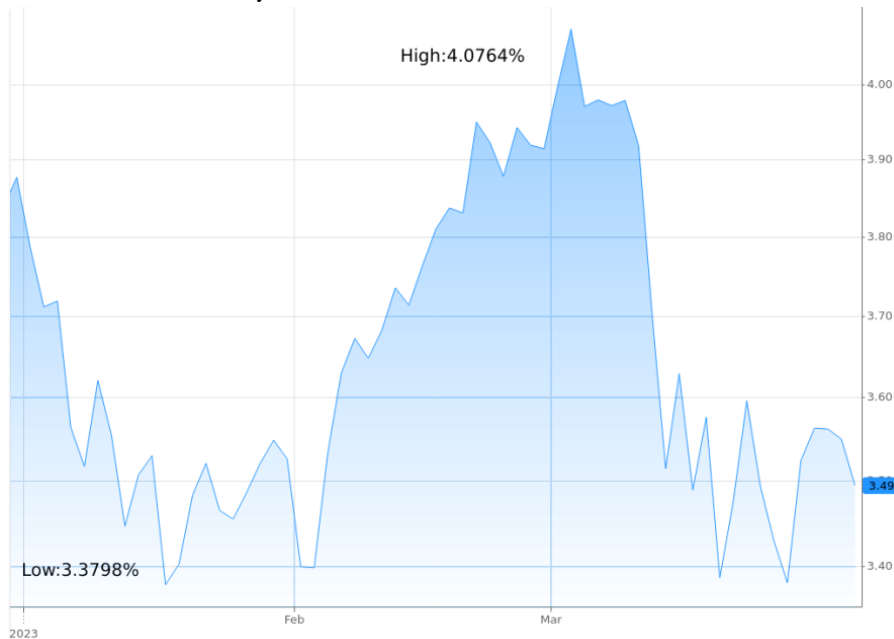
US 2-year T-Note Yield – Dec 30, 2022 to March 31, 2023



Factset – April 10, 2023

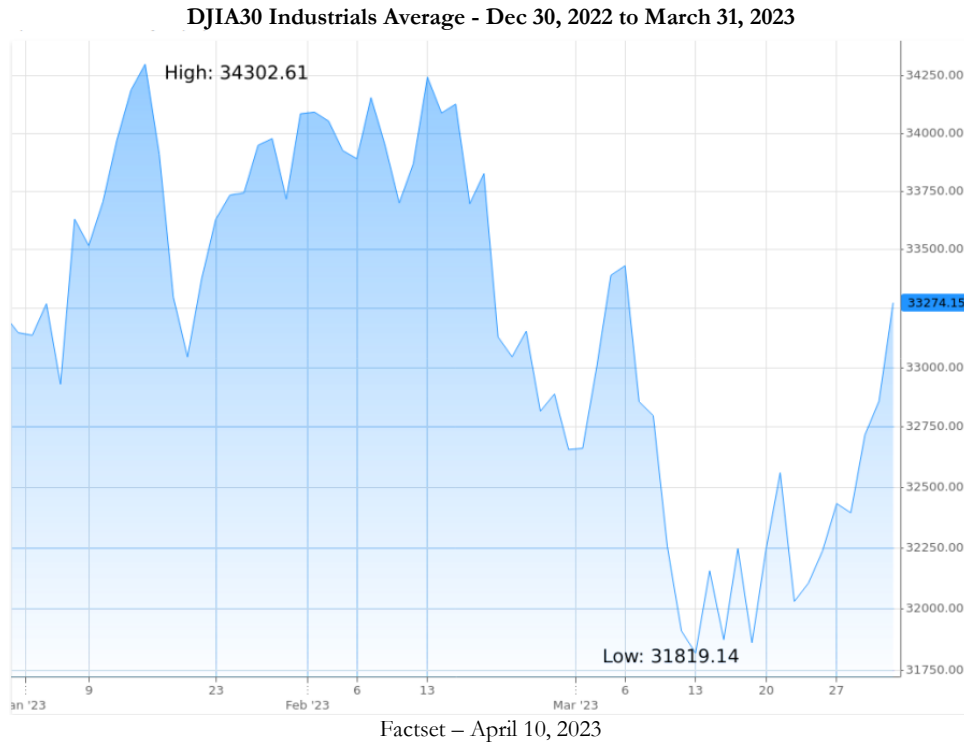
In this year's Letter to Shareholders, Jamie Dimon, Chairman and Chief Executive Officer of JPMorgan Chase & Co., highlighted the importance of interest rates to valuations: "Interest rates are extraordinarily important – they are the cosmological constant, or the mathematical certainty, that affect all things economic." (April 4, 2023) The plunge in bond yields reflected the new expectation that, because of the bank failures, the Federal Reserve would not raise short-term rates more, as the markets had expected in early March, but rather would cut them sharply later this year. 10-year U.S. bond yields also plunged in March from 4.076% to 3.379%.

US 10-year T-Note – Dec 30, 2022 to March 31, 2023



Factset – April 10, 2023

As Jamie Dimon pointed out, the decline in bond yields has the most effect on investments whose payoffs are far in the future, such as venture capital and real estate. This was well illustrated in the first quarter by the total return (which includes dividends) of the Dow Jones Industrial Average, which was up 0.09% (in U.S. dollars) and the technology heavy NASDAQ, which returned 16.8%. Contrast that to 2022, when interest rates went up and the Dow lost 6.9% and the NASDAQ lost 33.1%.



How much of the rise in inflation in 2022 was due to the aftershocks of the pandemic and supply chain disruptions or the ground war in Europe and deteriorating diplomacy with China, or weather chaos, has not been sorted out. How quickly inflation will moderate from central bank tightening is a focus now. A pending deterioration in the economy and in corporate profits is also top of mind. In the world of investing there always seems to be much to worry about. I can't tell if there is more to worry about nowadays or whether in my old age I am becoming even more of a worrier. I am inclined to think it is the former, but I am glad I bought a generator last summer all the same. Calamity, both the financial and weather type, seem to happen faster now. It is best to be prepared.

Sincerely,

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Senior Portfolio Manager

*Please visit us at [www.georgestedman.com](http://www.georgestedman.com)*

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