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Harman Wealth Market Bulletin

After Silicon Valley Bank, What Now?

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Responses by the Fed will likely be well received.

The events surrounding the Silicon Valley Bank failure and the regulatory takeover of Signature Bank are not only grabbing headlines, they are also creating consequential shifts to Federal Reserve interest rate policy.

While much has already been written about the causes behind the bank failures, we offer a few observations about the current environment:

1. Stabilization Efforts are Underway

In the wake of the dual bank takeovers, the Fed, along with the U.S. Treasury, moved in with decisive action, attempting to calm investors and account holders quickly. Each bank carried its own idiosyncratic risks, one to tech start-ups and the other to crypto. Neither situation is believed to represent broadscale vulnerabilities, but it will take time for the jitters to settle.

2. Pressure is on the Fed to Pause Rate Hikes

Prior to last week, many fed watchers believed the Fed's future path was going too far. Critics argued disinflation was already working within the economy, and ongoing hikes were premised on outdated and lagging housing data. To continue hiking higher was to place the economy at risk of a hard landing.

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3. Slowing/Pausing Rate Hikes would be Welcomed by Equity Investors

To the surprise of many, the economy has demonstrated notable resilience even as inflation and interest rate hikes offered challenges over the last two years. While some pockets of the economy are clearly strained (e.g. technology, real estate), there is still a substantial proportion working its way back from COVID-policy interruptions.

With inflation peaking last June, many are hoping ongoing growth will lead markets upward. An earlier-than-expected Fed pause would likely boost investor morale.

4. Unlike Last Year, Bonds are Performing Their Safe-Haven Role

Yes, the events of the last week facilitated turbulence as equity markets adjusted to unexpected developments. However, it's been comforting news that high-quality bonds delivered positive gains over the last week and resumed their role buffering portfolio volatility.

5. Inflation Still has More Progress Coming

After a flat CPI report in January, policy leaders' concerns eased a bit with February's improvement. The latest inflation metric reported at 6.0% year over year, still too high for anyone's satisfaction. However, over the course of the next four months, the inflation metrics will drop off three huge months from 2022. By July, policy leaders will have a much clearer picture of where the new run rate in inflation stands.

6. Portfolio Positioning

Harman Wealth's positioning is still cautiously optimistic and focused on the longer term. Portfolios remain well diversified and anchored to a neutral orientation. Fixed income positions are focused on either higher quality or shorter duration aimed at reducing overall portfolio risk.

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That's why we conduct rigorous and disciplined tracking of the U.S. business cycle. We also track the cyclical factors that shape our investing environment, like currencies, commodities, and rates. We embrace a world where investing dynamics are constantly evolving and believe it's imperative to have an investment strategy that adapts with it.

With Adaptive Business Cycle Investing, we invest consistent with business cycle forces. We aim to align investments with the conditions driving returns in the present, rather than chasing what worked in the past.

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