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Market Volatility to Persist in the Second Quarter

Last week, Federal Reserve policymakers voted unanimously to increase the Fed Funds rate by 25 basis points. The Fed has increased the policy rate by 475 basis points over the last twelve months. This decision capped a rollercoaster seven-week period since the Fed's previous meeting. Unfortunately, this month's turmoil in the regional banking sector means this volatility will likely continue into the second quarter.

After the FOMC increased the policy rate by 25 basis points on February 1st, economic data showed the US labor market remains strong, and the US consumer was proving more resilient than we expected. However, the data also showed that the disinflationary pressures were not as strong as at the end of 2022. These conditions seemed to give the Fed the opportunity and motivation to take interest rates much higher to bring inflation back to the two percent target.

Market-implied expectations for the peak Fed Funds rate jumped from

roughly 4.9 percent in early February to 5.70 percent in early March. Fed Chair Jerome Powell even suggested that a reacceleration in the pace of the hiking cycle (i.e. a return to 50 basis point hikes) was on the table.

Then, Silicon Valley Bank and Signature Bank failed. Many factors led these banks to collapse, including poor risk management and the digitization of the financial system that allowed a bank run to materialize with unprecedented speed. However, the sharp increase in interest rates over the last year created the conditions for the regional bank panic. It's a common refrain that the Fed would increase rates until something breaks, and it seemed we were seeing some cracks.

Those same market-implied forecasts of the peak in the Fed Funds rate fell sharply to 4.76 percent on March 13th, almost a full percentage point lower than just five days earlier. Leading up to this week's meeting, a 50-basis point increase was entirely off the table, while a pause in the tightening cycle seemed possible.

Given all the volatility, we were focused on how these developments impacted policymakers' outlook for policy. In the committee [policy statement](#), they described the banking system as "sound and resilient" but also said:

"Recent developments are likely to result in tighter credit conditions for households and businesses and to weigh on economic activity, hiring, and inflation. The extent of these effects is uncertain."

This means that the committee expects the crisis in regional banking will lead to more conservative lending, which will likely slow economic growth. This is evident in policymakers' forecasts included in the [Summary of Economic Projections](#). The median forecasts for economic growth in 2023 and 2024 declined from the last projections gathered in December. The forecasts also show that policymakers expect a slightly smaller increase in the unemployment rate this year and for inflation to be a bit higher than they did in December. However, they continue to see a 5.1 percent terminal policy rate, which implies another 25-basis point increase sometime this year.

The market disagrees. Futures markets are pricing between three and four 25-basis point cuts by the end of 2023. This implies either a much weaker outlook for the economy or that more cracks in the financial system will emerge, or, in a worst-case scenario, both. The two-year Treasury yield, often viewed as a leading indicator of Fed policy, has fallen 100 basis points this month to roughly 4 percent. We think this is too pessimistic. The economic expansion likely continued into the first quarter, and the labor market remains strong. We are closely watching commercial real estate market conditions, but banking stress has diminished. After the quick regulatory response to this month's bank failures, we believe most depositors believe their deposits are safe. As we move further from the bank failures and more economic data is released, we expect short-term interest rates will rise modestly from current levels.

Nevertheless, this divergence between what investors and policymakers expect likely means that the heightened financial market volatility we've experienced over the last two months will, unfortunately, continue into the second quarter. Inflation and labor market data releases will continue to be potentially market-moving events, and investors will scrutinize Fed policymakers' public comments for changes in the policy outlook. We will continue to monitor these events in the coming weeks and position portfolios accordingly.

Your Digital Legacy

Most of us think about physical belongings but rarely consider our digital assets. A digital access plan gives you the chance to control what happens to your memories and helps save your loved ones the work of organizing and compiling your photos, posts, and passwords. This is especially thoughtful, as these tasks often need completion during the most challenging of times.

The first step is to gather your digital assets. You are the most knowledgeable on critical items and what is most important to you. The most immediate need will probably be for access to your email and online accounts for insurance, utilities, and banks. You also may have the only login for other sites such as credit cards, utilities, online shopping, but don't forget about your social media. If you store photos or documents with a cloud storage provider, that will also be important to share. You may have USB sticks, camera SD Cards containing photos, and other storage devices and hardware. Labeling these clearly will assist others. If possible, collect your photos and organize them on a hard drive or with a cloud provider. It would be unfortunate to lose memories with sold or donated equipment.

Passwords are best stored using password manager software. PC Magazine ([PCMag](#)) has an annual list of their top-rated picks such as 1Password and Dashlane. They are considered far more secure than storing passwords in your browser such as Chrome or Microsoft Edge. They can even log you on to your favorite websites automatically! When saving password information to the software, you can also choose to save your security question responses. Encrypted notes can contain helpful information, such as credit card numbers and banking information. Use a 12+ character password that you can remember (maybe a phrase or quote) and two factor authentication (2FA) to strengthen security. Depending on the service selected, you can conveniently access the passcodes on your phone, tablet, and other electronic devices.

Another advantage to using a password manager is that you can add an emergency contact. That trusted party can log onto the password manager and request access your account. You will then be notified and can either deny this request or grant access for a certain amount of time, usually 3-7 days. If there is no response, the user is granted access. This way you don't have to give out your passwords ahead of time. If a password manager or other digital method seems too challenging, you can always choose the notebook method. Alphabetical contact notebooks, address books, or card-style catalogs are nice to use, but be clear when writing about your website, username, and password -- then keep the information locked safely away! Also remember to update these notes when you change your password, or if there are changes website addresses. You may wish to include other notes, instructions, and information in paper form as well. Be sure to let the person you have designated know where it is being



Teresa Whorton
Private Fiduciary
Services -
Accounting
Manager

stored and how to access.

Next, select and notify your trusted loved one or friend about your wishes for them to step in when needed. As described, you can invite them as an authorized password vault contact, or simply describe the location of your physical password notebook. Now let your immediate family know who the trusted contact is. Currently the ability to control your digital assets in disability and death can be stipulated in your estate documents as well.

By planning ahead, you can ensure that your digital legacy is cared for as you wish. Your plan is a gift to loved ones who otherwise could be required to decipher and navigate your digital footprint on their own.

Operations Corner

2023 IRA RMDs

If you have an IRA with us and will be 73 or older by December 31 of this year, you should have received a letter from us notifying you of the amount of your 2023 Required Minimum Distribution (RMD). If you have not already given us your instructions, please don't hesitate to do so. We can either schedule your RMD for a specific future date in 2023 or set it up as a monthly action.

Trusted Contacts and Beneficiaries – Have you updated yours?

A Trusted Contact is a resource that either Schwab or PAM could contact if we are unable to reach you for any reason. Naming a Trusted Contact does not give that person access to your account or personal information, it is simply someone that might be able to assist us in contacting you directly or advise us if there is a situation in your life that we should be aware of. PAM strongly suggests you have a Trusted Contact attached to all your accounts. If you would like to check, feel free to contact anyone in Operations for assistance.

A Beneficiary is a person, persons, or entity designated to receive the benefits of your account after you die. Beneficiaries, both primary and contingent, can be added to many types of accounts, including retirement accounts, individual, and joint accounts. If you are not sure you have beneficiaries assigned to your account, or you would like to update the existing beneficiaries, please do not hesitate to contact your Portfolio Manager or the Operations Team.

Deposits

All checks for deposit must be made payable either to the name on your account or to "Charles Schwab." They should also be endorsed. We suggest signing and writing "For deposit only" on the back. Checks from a title or insurance company must be endorsed, and the signature(s) must match the listed payee(s) exactly, or they will be rejected.

**ADVs & CRS Disclosures are available upon request.
Contact the Operations Team for more information.**

Security Notice

Find out how Charles Schwab protects your information and about Schwab one-time password protection / soft token codes.
For more details, go to the PAM [Website](#).

Please note: the information in this newsletter is not intended as legal or tax advice. Please consult legal or tax professionals for specific information regarding your individual situations.

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