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Weekly Commentary

MARCH 27, 2023

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Drama concluded?

The final chapter of the banking turmoil of recent weeks could have been written when Swiss financial authorities forced UBS to buy troubled Credit Suisse last weekend (March 19). Although questions remain about a few U.S. regional banks, the strong words of Federal Reserve Chair Jerome Powell on Wednesday should add to investor confidence that the worst is over. Of course, by his own admission, monetary policymakers don't yet have all the answers and will continue the investigation into what exactly happened at Silicon Valley Bank. But we agree with him and believe the banking system is solid.

Powell's remarks came at his press conference following the Federal Open Market Committee meeting Wednesday. He said that the Committee hiked rates by 25 basis points because quelling inflation remains the highest priority. In any case, foregoing a hike could have signaled that policymakers actually were concerned about more instability in the banking sector following the foundering of Silicon Valley Bank, as well as Silvergate and Signature banks. While the FOMC raised the fed funds target range by 25 basis points to 4.75-5%, it still projects the fed funds rate will peak at 5.1%, likely meaning one more quarter-point hike is on its way. Powell said he and those on the Committee expect that the likely tightening of credit conditions resulting from the bank troubles could actually aid them in the fight against stubborn price pressures. Let's hope the curtain has descended on the drama we've witnessed in the banking sector, and we can move on.

G40461-19 (3/23)