Despite the backdrop of bank failures, recession concerns and a debt ceiling standoff, markets have been relatively free from disturbance. No doubt tremendous volatility, but overall fears have been kept in check by worries exceeding reality year to date. A recession has failed to materialize, although still looming as a distinct possibility. In the event of a full on recession, the Fed will have few options but to resume quantitative easing.

With the banking sector sitting on approximately $620 Billion in unrealized losses, the collapse of Silicon Valley Bank and Signature Bank, both of whom were mismanaged, resulted in a significant erosion of confidence in bank deposits (down more than $500 Billion year over year system wide). There is presently over $5.2 Trillion in money market funds. These funds could of course ignite a strong rally if confidence/ risk off in equities returns. A move into fixed income securities will in general bring interest rates/ borrowing costs lower (fixed income rally equals price higher, yield lower). The primary impact of the withdrawals is lower bank reserves. This translates into less of a willingness to lend to households and businesses - which will slow the economy. The Fed will account for this when they next meet.

The economy has been surprisingly strong despite the Fed's rate increases, and remains on solid footing in March. Initial jobless claims are plateauing near historically low levels at 3.6%. The wild card is business investment, being hampered more by tighter lending than consumer spending. Increasing consumer spending, while a key growth driver accounting for two-thirds of economic output, may show signs of stress in the coming months. With massive cash and February clocking the highest savings rate in over a year - any predictions for consumer spending would be speculative. The service sector continues to exhibit price pressure, with consumers spending freely on travel, sporting events, recreation and restaurants.

Artificial Intelligence (AI) technologies are advancing with lightning speed. While fascinating and creating significant buzz in the investment and technology realms, there are legitimate concerns regarding the implications for society, and some say for mankind. In an open letter, signed by Elon Musk (a founder of Open AI), Apple co-founder Steve Wozniak and more than a thousand other tech leaders and researchers, a pause of no less than 6 months was suggested. There is a race, unregulated, to develop ever more powerful digital minds - which no one can "understand, predict or reliably control". Not even their creators. While some of the technological advances of AI seem to offer many benign benefits in the form of ChatGPT (developed by Open AI), other segments could replace vast amounts of employment worldwide and create societal risks. Extensive unemployment is never a good outcome, on many levels. Not certain how an open letter will slow down the race. Government regulation may be the only avenue, although generally not a preferred one. Hopefully, the tech companies driving the development will act in a responsible way, and draw the line where the benefits from AI cease to benefit society.

The second quarter may have its challenges: Rising oil prices pressuring inflation, earnings potentially impacted by an aggressive rate policy in Q1, along with a consumer spending slowdown after a torrid pace. Alternatively, steady Fed policy and better than expected earnings could set a positive tone.

Notes:

Ramsdell Capital Management . 505 Montgomery Street. Suite 1000. San Francisco, Ca 94111
415.568.2200 / 800.959.9950 / will@ramsdellcapital.com