Credit crunch time

Chris Brown, Vice President — Investments, Synovus Securities, Inc.

We are just past the one-year mark since the Federal Reserve started its quantitative tightening (QT) on March 16, 2022. The Fed has just completed their 9th consecutive Fed Funds Rate hike, adding another .25% on March 22, 2023. Throughout the past year, the Federal Reserve has moved the Fed rate up 500 basis points with the hopes of reducing inflation back to its target of 2%. The U.S. inflation rate has declined from its peak at 9.1% in June 2022 to 6% reported March 14, 2023. See Chart 1.

Chart 1

![Chart 1](https://tradingeconomics.com/united-states/inflation-cpi)

Source: https://tradingeconomics.com/united-states/inflation-cpi

U.S. inflation has peaked and is receding, but the Federal Reserve’s blunt instrument tool of QT has recently presented cracks in the U.S. economic foundation. In the second week of March, the markets witnessed its first real Fed induced shock, since the GFC (Great Financial Crisis of 2008-2009), with the collapse of Silicon Valley Bank and Signature Bank of New York as well as contagion fears in the regional banking sector. The U.S. Treasury and the FDIC have provided some reassurance around depositor protection and may be in talks for amending the FDIC limits at this time. Regional banks as well as larger banking institutions have been tightening their lending standards for commercial real estate (CRE loans) and Commercial & Industrial (C&I loans) before the regional banking shock from mid-March. Bank of America Global Research recently published a chart showing the percentage of banks, large and small, reporting tighter lending standards for C&I loans. C&I loans is a large part of a banks business outside of checking, savings, and mortgage loans. See Chart 2.

Chart 2

![Chart 2](https://www.apricitas.io/p/the-death-of-silicon-valley-bank)


C&I loan balances reached $2.7 trillion in the end of 2022 for banks in the U.S. These loans have helped businesses expand their operations and hire more staff as they grew. There are two main deterrents for businesses to receive additional capital from banks. One is the higher cost of capital. The Federal Reserve has moved interest rates up almost 500 basis points in one year. A $2 million small business loan payment in 2020 may have been $7,500.00 a month and based on today’s rates, a small business may see a doubling of their payment.

Read the full article here online.
**Q2 2023 Currency Outlook**

David Grimaldi, Foreign Exchange Sales Consultant

In March, the Fed and Jerome Powell decided that one more hike for the year was enough. Was it enough to tame inflation or did they raise rates until “something broke” as is the usual course when the Fed tightens credit. After a few weeks of watching three banks collapse, it is a greater possibility we will see a recession sooner than later and the stagflation dynamics are almost certain. Signs of housing market weakness, labor market layoffs in the Tech sector, and consumers struggling with wages not keeping pace with inflation are troubling signs into the second quarter. The good news is that oil and gas are lower and that is only due to recessionary forecasts and a drop-off in global production of goods. Overall, the U.S. dollar may have seen a top for now, assuming rate hikes in the U.S. are done and tightening to tame higher inflation in Europe and the United Kingdom continue. The question is how much weakness we see and if other things break out there to cause a flight back into U.S. dollar safety.

**Is today's Tech rally for real?**

Daniel Morgan, Senior Trust Portfolio Manager

Does the current rally in the Tech sector — the S&P Information Technology Sector Index is up +15% vs the S&P 500 Index is up +3.5% year to date (YTD) — have legs? Or will the recent price increases fade once the macro factors, like higher interest rates, slower economic growth and dwindling earnings power impacting the market, come to shore?

Technology sector profit growth is expected to slow in 2023, but the Tech sector could surprise on the upside. Consensus S&P 500 EPS estimates for fiscal year (FY) 2023 call for profit growth to fall to (-2.07%) year-over-year (YoY), followed by a rebound of +11.7% YoY in FY 2024. The Technology Sector is expected to post a profit contraction in FY 2023 by (-5.8%) YoY, followed by a slight rebound in FY 2024 of +15.8% YoY. With the biggest rate of growth coming from the Software & Services segment +4.8% YoY, while profits in the semiconductor sector are expected to fall (-23.7%) YoY. These low expectations for the Technology Sector of (-5.8%) YoY growth in FY 2023 creates a low bar for the sector to outperform. With a market starving for profit growth the Tech sector in the past has generated above average earnings power, resulting in outperformance. We will see if the cycle repeats itself.