

Weekly Wrap 24 March 2023 –

Bonds, banks & rates. What to consider in the current market.

Thank you for joining us this Friday 24th March. I'm Sophia Mavridis, Market Analyst at Bell Direct and this is your weekly market update.

Given the recent US banking system turmoil, the Fed meeting this week was of the utmost importance.

The key takeaway is the Fed believes it is "too soon" to know how US monetary policy should be deployed to restrain concerns in the banking system.

This week the Fed Funds Rate (FFR) was increased by 0.25% to 4.75 – 5% and the Fed is committed to continue quantitative tightening.

If you look at the Fed projections for the FFR today verses those from a quarter ago, not much has changed. The main change is one more hike next year. While the Fed has previously stated there will be one more 25 basis point hike this year before remaining on hold for the rest of 2023, it seems the market is expecting otherwise. A likely influence is a statement made on Thursday morning by Treasury Secretary Janet Yellen, who said before the US Senate that "we're not considering insuring all uninsured deposits". This could threaten the recent stabilisation in deposit outflows from regional US banks.

Following the Fed's rate hike, equity markets saw broad selling, with the Dow Jones, S&P500 and the Nasdaq all in negative territory.

First Republic Bank's shares are down 29% WTD on the New York Stock Exchange. The bank was hit hard last week following the Silicon Valley Bank collapse. Along with other regional banks, First Republic holds large amounts of uninsured deposits above the \$250,000 government insured limit. Putting it into perspective, 68% of First Republic deposits are uninsured and 94% of Silicon Valley deposits are uninsured. And although the Bank of America, Goldman Sachs, JP Morgan, and others are depositing \$30 billion in First Republic, the bank is still looking to raise more funds.

As customers pulled out billions in deposits and the growing banking crisis spread into this week, the sale of Credit Suisse to UBS played out this week as well. The combined entities will manage US\$5 trillion of invested assets.

The past few weeks have also seen bond yields tumble, partly protecting equities from financial instability concerns and a severe tightening in credit. The yield-sensitive areas like technology, performed best, while banking stocks were down.

Locally, the Australian share market is down 0.37% this week so far. Real estate was the worst performing sector, weighed down by interest rate concerns. Utilities and financials also declined, while communication services and energy were the best performing sectors, each advancing 1.11% Monday to Thursday.

On the ASX200 leader board, gold miner Evolution Mining (ASX:EVN) was the best performing stock this week, as the company began underground production three months ahead of schedule in its NSW Cowal project. Additionally, the company announced that recovery plans are on track for their Ernest Henry operation in Queensland, after the company was forced to halt production following heavy rains.

Dominos Pizza (ASX:DMP), Healius (ASX:HLS) and New Hope Corporation (ASX:NHC) also advanced this week.

And on the losing end, Sayona Mining (ASX:SYA) declined the most, targeted by short-sellers. The stock has dropped 16% this week so far, as short-sellers view the lithium industry as overvalued. The same goes for Liontown Resources (ASX:LTR) with short interest of 8.2%, down week-on-week. LTR declined more than 13% this week, with cost blow outs at the Kathleen Valley Lithium Project, as well as weakness in the price of lithium, likely the cause.

Lake Resources (ASX:LKE), Polynovo (ASX:PNV), BrainChip (ASX:BRN) and Core Lithium (ASX:CXO) are also in the red.

And on the All Ords this week, Mincor Resources (ASX:MCR) and Panoramic Resources (ASX:PAN) advanced the most, while Weebit Nano (ASX:WBT) and Argosy Minerals (ASX:AGY) tumbled over 26%.

The most traded stocks by Bell Direct clients this week were BHP, Rio Tinto, IDP Education (ASX:IEL), Resmed (ASX:RMD), Incitec Pivot (ASX:IPL), Fortescue Metals (ASX:FMG) and Core Lithium (ASX:CXO).

Clients also bought into Macquarie Group (ASX:MQG), while took profits from Newcrest Mining (ASX:NCM).

And the most traded ETFs this week were the BetaShares Australian High Interest Cash ETF (ASX:AAA), the BetaShares Geared US Equity Hedge Fund (ASX:GGUS) and the Vanguard Australian Shares Index ETF (ASX:VAS).

And to end, economic data to look out for next week:

On Tuesday, retail sales data for February will be announced and data on housing credit and private sector credit data will be out on Friday.

And that's all for this week. I'm Sophia Mavridis with Bell Direct. Have a great Friday and enjoy your weekend.

- Sophia Mavridis, Market Analyst