WEST SHORE BANK

**WEEKLY RECAP - March 21, 2022**

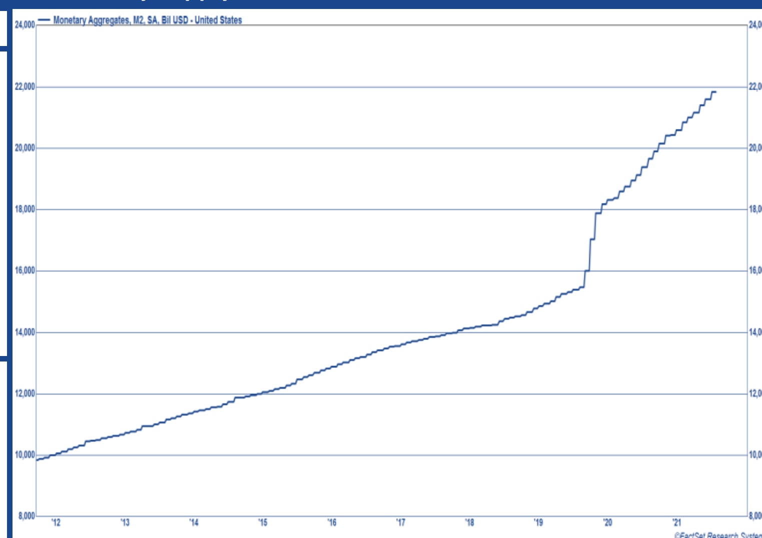
## Economic & Market Commentary

It there was one theme that came out of the Federal Reserve (Fed) FOMC press conference last week it was this statement by Fed Chair Powell, “the Committee acutely feels its obligation to move to make sure that we restore price stability and is determined to use its tools to do so.” One of these tools is the shrinking of the Fed’s balance sheet. Since 2008, the Fed has increased their balance sheet by roughly $8 trillion to $8.9 trillion. The first increase phase emanated from the Great Recession when, in an effort to drive interest rates down and stimulate economic growth, the Fed implemented Quantitative Easing (QE) monetary policy. The second phase came with the onset of the COVID pandemic. With QE, the Fed purchases treasury and mortgage bonds in the open market from mainly member banks (J.P Morgan, Bank of America, etc.). With each purchase the Fed creates digital dollars and credits the member bank’s account with excess reserves. For the Fed’s balance sheet, the purchased bond becomes an asset and the reserve ($$) becomes a liability. It is important to note that with each purchase the Fed is increasing the money supply and keeping treasury yields artificially low. For member banks, they can choose to leave the reserves at the Fed and earn interest or tap into the reserves for making loans. Since the start of QE, the member banks have mainly chosen to leave their excess reserves at the Fed. Why is this rather boring overview of the Fed’s balanced sheet important? It is because the Fed is expected to start to unwind their balance sheet soon and thereby begin to remove liquidity from the market and tighten financial conditions. Bond market experts estimate QE has kept yields artificially low by 100 to 200 basis points. If the Fed decides to be more aggressive and sell bonds in the open market, it will put additional pressure on rates. Roughly half of the Fed’s bond holdings have maturities greater than five years.

## Index Total Returns - March 18, 2022

| | 1-Wk | YTD | 1-Yr |
|---|---|---|---|
| Dow Jones | 5.53 | -3.89 | 7.74 |
| S&P 400 | 5.32 | -4.49 | 4.91 |
| S&P 500 | 6.19 | -6.05 | 15.60 |
| Russell 2000 | 5.43 | -6.86 | -7.04 |
| MSCI-Developed | 5.60 | -7.26 | -1.74 |
| MSCI-Emerging | 3.50 | -8.59 | -14.84 |
| NASDAQ | 8.20 | -11.05 | 6.63 |
| **Barclay's U.S. Bond Index** | | | |
| Int. Gov. Credit | -0.54 | -3.69 | -3.29 |
| 5-year Muni | -0.41 | -3.92 | -3.02 |
| Municipal | -0.51 | -4.88 | -2.71 |
| High Yield | 0.51 | -5.06 | -0.04 |
| Aggregate | -0.39 | -5.16 | -3.08 |

## M2 - Money Supply




## U.S. Treasury Yields

| Treasury Yields | Latest Close | Week Ago | 1-Year Ago |
|---|---|---|---|
| U.S. 1-Yr | 1.20 | 1.14 | 0.08 |
| U.S. 2-Yr | 1.96 | 1.75 | 0.16 |
| U.S. 3-Yr | 2.15 | 1.91 | 0.34 |
| U.S. 5-Yr | 2.14 | 1.95 | 0.87 |
| U.S. 10-Yr | 2.15 | 2.00 | 1.72 |
| U.S. 30-Yr | 2.41 | 2.36 | 2.48 |

## Municipal Yields - Bloomberg/Barclays Index

| Issue Type | Latest Close | Week Ago | 1-Year Ago |
|---|---|---|---|
| U.S. AAA | 2.06 | 1.94 | 1.02 |
| U.S. AA | 2.17 | 2.05 | 1.11 |
| U.S. A | 2.44 | 2.32 | 1.43 |
| U.S. Baa | 2.78 | 2.66 | 1.96 |
| U.S. Municipal | 2.27 | 2.15 | 1.25 |
| Michigan | 2.29 | 2.18 | 1.31 |

## S&P 500 Sector Total Returns - March 18, 2022

| Sector | 1-Wk | YTD | 1-Yr |
|---|---|---|---|
| Energy | -3.58 | 33.70 | 57.95 |
| Financials | 7.18 | -0.06 | 14.81 |
| Utilities | 0.56 | -0.99 | 17.78 |
| Health Care | 6.30 | -2.71 | 21.48 |
| Industrials | 5.04 | -2.72 | 7.36 |
| Consumer Staples | 3.94 | -3.50 | 17.44 |
| Materials | 5.23 | -4.98 | 11.88 |
| Real Estate | 2.95 | -8.81 | 24.56 |
| Consumer Discretionary | 9.28 | -10.60 | 9.80 |
| Info Tech | 7.88 | -10.72 | 20.51 |
| Communication Services | 5.80 | -12.96 | -1.90 |

| Index Characteristics | P/E NTM | P/E NTM 10yr-Avg. | Dividend Yield |
|---|---|---|---|
| S&P 500 - Large Cap | 19.44 | 17.01 | 1.32 |
| S&P 400 - Mid Cap | 14.34 | 15.65 | 1.23 |
| S&P 600 - Small Cap | 13.85 | 16.06 | 1.17 |

Data Source(s): FactSet, Federal Reserve, Fed Res Bank of New York, Fed Res Bank of Richmond, Fed Res Bank of Cleveland