

Yields Nosedive (again) as Traders Anticipate an Early End to Fed Tightening

The Silicon Valley Bank collapse came from out-of-nowhere and may have redirected the path of monetary policy. On Friday, the FDIC took control of the troubled venture capital lender, marking the second largest bank failure in U.S. history. With only a fraction of the SVB deposit base falling under the \$250k insured amount, the question going into the weekend was whether the government would step in to assure *all depositors* would have access to their funds.

The answer came on Sunday when Treasury Secretary Yellen, along with the Fed Chairman and FDIC Chairman announced that *all SVB depositors*, along with depositors of the crypto-damaged Signature Bank of New York, *would be made whole* and that any losses to the Deposit Insurance Fund would be paid for, not by taxpayers, but through a special assessment on banks. Shareholders and unsecured debt investors would not be protected.

Also on Sunday, the Fed announced a new funding source to assure that *all banks* have the ongoing ability to meet depositor withdrawals. The "Bank Term Funding Program" would provide short-term loans secured by collateral from the borrowing institution, and is intended to calm concerns that other banks may be struggling with significant unrealized portfolio losses.

The bond market quickly determined that continued rate hikes by the Fed were a bigger threat to the financial system than inflation. The bond rally that started Thursday has driven the two-year Treasury note down from a Wednesday high of 5.08% to an intraday low this morning of 3.99%. The two-year has subsequently climbed back to 4.11% ...but the day isn't over.

The markets are jittery. The realization that other banks may experience financial distress is reasonable in light of what's suddenly unfolded over the past several days. The government has thrown an enormous life preserver to financial institutions, which should help mitigate any future bank runs, while the recent bond rally has dramatically improved balance sheets, but the psychological toll has been heavy.

The futures market abruptly reset Fed expectations from 100 basis points of additional tightening in 2023 to just 25 basis points ...with rate cuts potentially beginning this summer. *Take this with a grain of salt.* Fed officials are in the midst of their 10-day quiet period before next week's FOMC meeting, so at this point investors can only guess at what committee members are thinking. Compounding the issue further is tomorrow's CPI release, which has the potential to upend the markets once again.

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Market Indications as of 12:55 P.M. Central Time

DOW	Up 102 to 32,011 (HIGH: 36,800)
NASDAQ	Up 105 to 11,244 (HIGH: 16,057)
S&P 500	Up 16 to 3,877 (HIGH: 4,797)
1-Yr T-bill	current yield 4.39%; opening yield 4.75%
2-Yr T-note	current yield 4.11%; opening yield 4.51%
3-Yr T-note	current yield 3.94%; opening yield 4.29%
5-Yr T-note	current yield 3.68%; opening yield 3.98%
10-Yr T-note	current yield 3.50%; opening yield 3.75%
30-Yr T-bond	current yield 3.62%; opening yield 3.78%

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