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After spending the last year and a half in a range bound purgatory for stock prices, the Fed has tightened monetary policy by shrinking their balance sheet and raising rates. Despite their best efforts, nothing changed. No rise in unemployment, no recession, no plan to curb spending in Washington (which is the biggest problem for the Fed in their fight against inflation). Many market commentators said eventually they (The Federal Reserve Board) will break something. The second and third largest bank failures in US history followed by a shotgun wedding of Credit Suisse and UBS was exactly that. A banking crisis here and in Europe is a big break.

It may sound strange, but I view these events as a positive when it comes to ending this Bear market and starting a new Bull. We have been trudging along with what feels like no progress when it comes to inflation. Yes, it is coming down, but not nearly fast enough to cause the Fed to be able to alter their course. The contraction in banking activity, because of the banking crisis, and banks tightening lending and shoring up their balance sheets, is probably equivalent to at least a quarter to a half a percent increase in interest rate from the Fed. This gives them permission to back off from their Hawkish tone and reduce the size of the rate increases even if they continue to raise until inflation reaches their two percent target.

As a result of this most recent crisis, FDIC coverage limits and what exactly that coverage offers will be reevaluated and updated. Weak links in the financial system will be exposed and corrected. Regulations imposed currently on the largest banks will be imposed on smaller banks that were thought to be a non-systemic risk. Ultimately, I fear banks will become regulated utilities and less growth and profit oriented, but time will tell. Regardless, the slowing of the economy needed to tame inflation is underway. Nobody welcomes a recession or slowdown, but that is the path to the next cycle of growth. I prefer to get back to growth sooner, rather than later. Stocks are going nowhere until the Fed is done raising rates. We are closer to being done than we were just a couple of weeks ago. That is good news.

Included in your reports is our privacy policy and our annual offer to provide you with our Form ADV. This is a regulatory requirement, and we are always happy to comply. This form is amended every year before March 31st. Let us know if you would like us to send you the most recent version or help you find it on the SEC web site.

As always, we are grateful for your trust and confidence. This has been a trying period for even the most seasoned investors. Brighter days are ahead. Thank you for allowing us to be of help and letting us navigate this storm on your behalf. Enjoy the arrival of spring and let us know if there is anything we can do for you to be of any additional help.

David J. Sculati
President
Accredited Investment Fiduciary®

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