# FLIPPIN, BRUCE & PORTER

A BUSINESS OF CANTOR FITZGERALD INVESTMENT ADVISORS

**April 2023**

Stock markets rallied in the final days of March, capping a volatile quarter on a positive note. There were significant differences in performance among economic sectors with growth-oriented Information Technology and Communications Services groups soaring more than 20% each, while more cyclical stocks in Financials and Energy declined. As one would expect in that environment, the S&P 500 significantly outperformed the Russell 1000 Value index.

Much of the market volatility was prompted by the sudden collapse of two mid-sized banks in early March which set off panicked selling in bank stocks. Silicon Valley Bank (SVB) and Signature Bank were shuttered following a run on deposits at those institutions, causing increased investor fears that these failures were just the tip of the iceberg. The shotgun marriage with UBS that "saved" Credit Suisse in Europe didn't help investor sentiment for the sector either. There is little doubt that management miscues at these institutions played a part in their collapses. But it must be noted that the dramatic rise in interest rates this year created large losses in their bond portfolios such that when depositors demanded their funds, these banks were short of capital to fund the withdrawals. These two domestic banks also had some unusual characteristics that make their situations unique: a concentrated deposit base of venture capital clients at SVB and an emphasis on cryptocurrency banking at Signature. Federal regulators, rightly or wrongly, acted quickly to guarantee all deposits at these firms, implicitly providing an implied backstop for the entire system in an attempt to prevent further bank runs. Regulators also created a special lending program that allowed banks access to funds if needed for withdrawals. Bank stock prices have stabilized, so the worst of the fallout may be behind us. Ongoing challenges to the banking sector include the potential for increased regulation, higher costs for deposits and the impact that a weakening economy may have on loan quality. The result is likely to be lower earnings potential for the sector than originally expected. Having said that, it appears to us that the U.S. banking system is well capitalized and strong, but no bank has enough liquidity to survive a true run on deposits.

Considering the recent credit shock, the Fed's FOMC dialed back the latest fed funds rate increase to 25 basis points in March, down from an expected 50 basis points. The FOMC signaled that it may continue to boost rates if needed to stem inflationary pressures, but analyst forecasts imply that after one more quarter point increase, the hiking cycle will end. The latest inflation figures for February, including both core inflation and the Personal Consumption Expenditure index, rose slightly less than expected, giving hope that the Fed is winning its battle against inflation. The upward movement in stock prices may be a reflection of this expectation. We believe the Fed is walking a tight rope as it attempts to curb inflation without creating economic and financial chaos. In many ways, the challenges brought about by this delicate balance are self-inflicted. Overly aggressive stimulus policies following the economic shutdown during Covid contributed to escalating inflation which had to be addressed with sharp interest rate increases by the Fed. Extricating the economy from this tight spot is no easy task.

In other economic news, The Conference Board Consumer Confidence index ticked up slightly in March despite the banking fears. The labor market, which has been strong for some time, is showing signs of weakness. The latest weekly initial jobless claims reports have moved modestly higher, while continuing unemployment claims, at 1.8 million, are well above the 1.3 million level seen last May and are at levels last seen in late 2021. Anecdotally, layoff announcements, which had been concentrated at large technology companies that had significantly beefed up staffing during Covid, appear to be spreading across a broader swath of the economy; McDonald's reportedly cut hundreds of corporate office jobs last week. We believe the chances of a recession in 2023 or 2024 have increased in light of all that transpired in the first quarter.

For our Equity & Dividend Plus portfolio, we eliminated our holding in KeyCorp during the quarter. Our view is that larger is better in the current environment for bank stocks and Key was the smallest market cap bank in the portfolio. Exposure to Financials, especially banks, negatively impacted the portfolio performance, and this was most noticeable in the month of March. Returns for the quarter and the one year lagged the benchmarks, while longer-term numbers continue to look favorable. It is worth noting that average returns YTD from dividend paying stocks in the S&P 500 trailed average returns from non-dividend payers by over 10%, reversing the trend seen for much of 2022. The sector weighting for EDP in Financials remains above the weight of the S&P 500 but below the weight of the Russell 1000 Value. With banks and insurance companies providing above average dividends, the sector traditionally has been well represented in the portfolio, but we are likely to consider some portfolio repositioning as we move into the second quarter. Other portfolio activity included the sale of PPL with reinvestment in Dominion Energy. Hanesbrands, Genuine Parts and Nucor, were also sold, the latter two primarily through call option exercises.

We encourage you to contact us with any questions you may have. For additional firm wide information please visit our website at www.fbpinc.com or call us at 1-800-851-3804. As always, we appreciate your continued interest in our firm.

*The information provided herein should not be construed as a recommendation to purchase or sell any particular security or an assurance that any particular security held in a portfolio will remain in the portfolio or that a previously held security will not be repurchased. Securities discussed herein do not represent a portfolio's entire holdings. It should not be assumed that any of the security transactions or holdings discussed herein have been or will prove to be profitable or that future investment decisions will be profitable or will equal or exceed the investment performance of the securities discussed. Past performance is no guarantee of future results. All recommendations/holdings within the preceding 12 months or applicable period are available upon request. S&P 500 is a market capitalization-weighted, total return index of widely held common stocks. Russell 1000 Value is a market capitalization-weighted, total return index of larger capitalization companies which exhibit traditional value characteristics. Indices are unmanaged and cannot accommodate direct investments. This information is intended solely to report on investment strategies as reported by FBP, the Investment Manager. Opinions and estimates offered constitute our judgment and are subject to change without notice, as are statements of financial market trends, which are based on current market conditions.*

*4/23*