



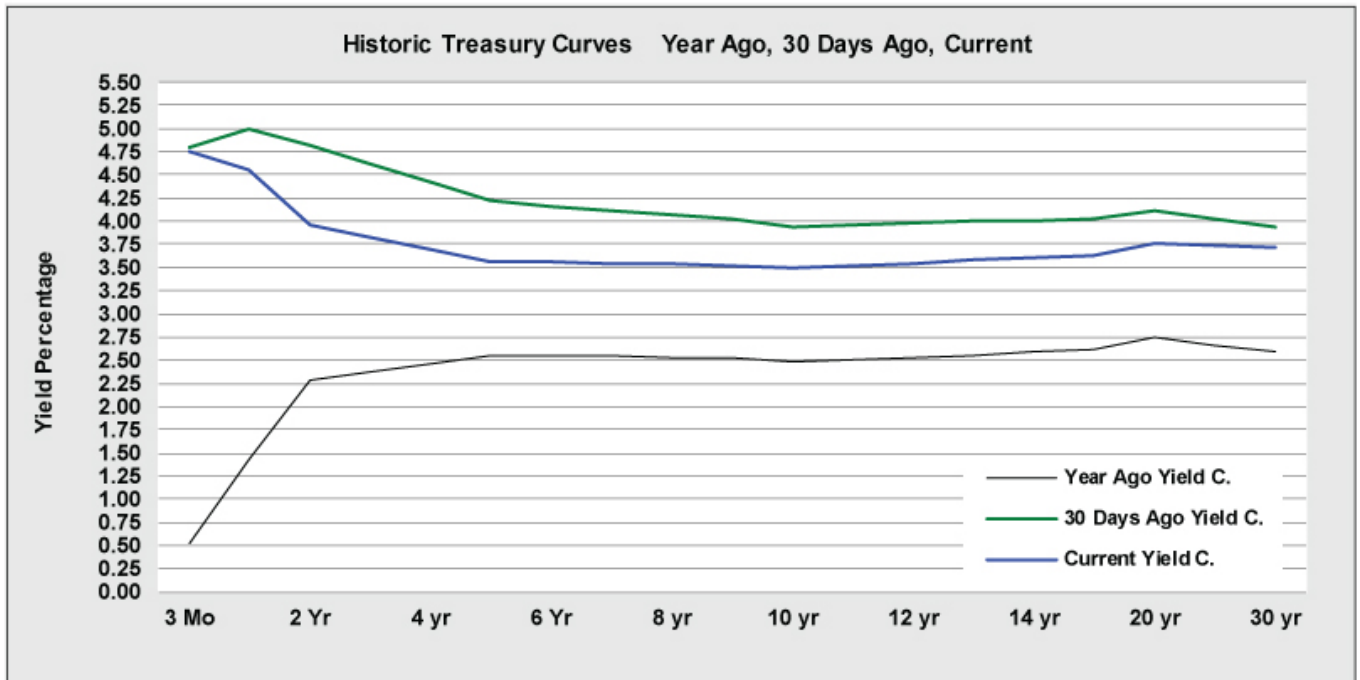
Daily Commentary

Commentary prepared by **Alloya Investment Services**, a division of the wholly owned CUSO of Alloya Corporate Federal Credit Union. Alloya Investment Services is a leading broker/dealer consultant to credit unions.

Friday, March 31, 2023 at 8:00 am CT

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Market Indications



Other Market Indicators

Market Indicators

2s/5s Tsy Spread	-0.46	-0.03
2s/10s Tsy Spread	-0.60	-0.02

Market Indicators

2s/30s Tsy Spread	-0.41	-0.03
DJIA-30	32,859.03	+141.43
S&P-500	4,050.83	+23.02
NASDAQ	12,013.47	+87.23
Dollar Idx	102.44	+0.29
CRB Idx	264.38	+1.67

Daily Commentary

Recap – Despite a trio of Fed officials stating the need for further rate hikes, markets brushed off these comments and additional weakness in the banks (-1.0% on the day). The S&P 500 advanced 0.6% and the Nasdaq rose 0.73%. Of note, the tech laden Nasdaq rose 0.91% and is now up 18.5% year to date. Financials were the laggard, slumping 0.4% on the day. Treasury yields were mixed, with 2-year yields rising by 1 basis point (to 4.11%) while falling by 3 basis points (to 3.73%) for the long-end of the curve. The DXY dollar index declined 0.4% to 102.18. The weaker greenback led the Commodity Research Bureau (CRB) commodity index higher by 0.6%. Of note, there was strength in the energy complex with natural gas (+6.1%) and West Texas Intermediate (WTI) (+1.9%).

Must reads of the day. If you think the banking crisis is over, have a look at the *Wall Street Journal's* “Small Banks Are Losing to Big Banks. Their Customers Are About to Feel It”. Deposits at such lenders slumped \$120 billion in the week ended March 15, while those for the 25 largest firms rose almost \$67 billion (Federal Reserve data). Then have a look at the *Financial Times'* “Flood of Cash into U.S. Money Market Funds Could Add to Banking Strains”. The flight of deposits that resulted from the banking turmoil in the last few weeks is inflicting pain on small lenders that struggle to compete with higher-yielding money-market funds. Moreover, banks are still borrowing much more than is typical during periods of low stress.

As small banks lose deposits to the big banks and money market funds, a credit crunch becomes more likely particularly for small business lending. Note that small banks (with less than \$10 billion in assets) account for nearly 43% of outstanding small loans to businesses, while the 13 largest banks account for less than 23% of such loans.

The bottom line is, deposits were really taken for granted for a very, very long time because of the zero-interest rate environment, and now that's completely changed.

It's a risk-on session to end the week. U.S. equity market futures are mostly in the green (though the Nasdaq looks to be pulling back), building on yesterday's positive momentum as stocks continue to shake off banking sector fears. The Euro Stoxx 50 has posted a 0.4%

advance so far today, and Asia put in a stellar performance across the region thanks to some nice data overnight.

In advance of today's personal consumption expenditures (PCE) data, bond markets are mixed in the early going (8:00 am ET), with the 10-year Treasury yield at 3.54% while the front end is selling off modestly. Twos are yielding 4.16%.

To end the week, personal spending and the PCE index, the Fed's preferred inflation gauge, will be released. The consensus forecast is for the core PCE to rise 0.4% month-over-month and 4.7% year-over-year. Any significant moves from consensus reads will likely cause a significant move in yields. Later in the session, the all-encompassing Chicago Market News International (MNI) along with the University of Michigan sentiment index will be reported. Finally, New York Fed President John Williams and Governor Lisa Cook will be at the lectern.

Have a great weekend!

Economic Calendar

March 27-31, 2023: The Week Ahead

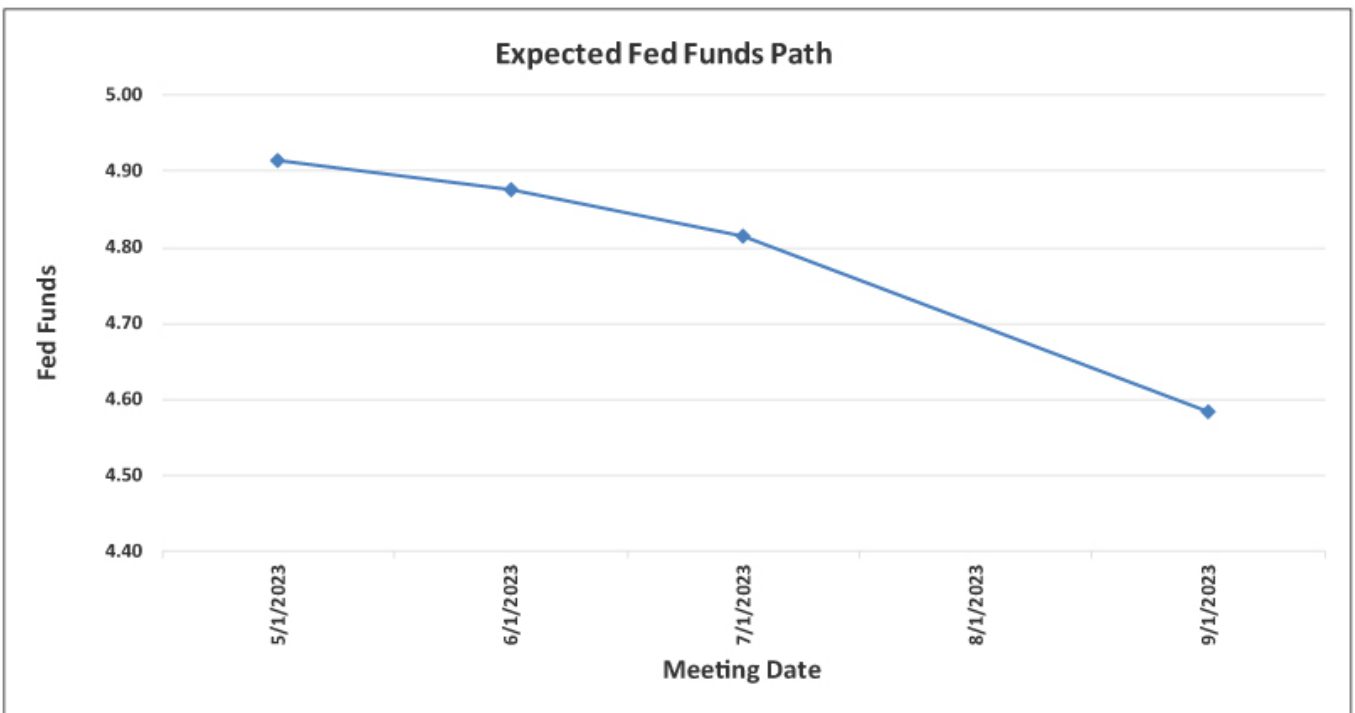
Date	Event	Period	Expected	Prior-Period
3/28/2023	Wholesale Inventories MoM	Feb P	-0.10%	-0.40%
3/28/2023	Conf. Board Consumer Confidence	Mar	101	102.9
3/29/2023	MBA Mortgage Applications	24-Mar	--	3.00%
3/29/2023	Pending Home Sales MoM	Feb	-3.00%	8.10%
3/30/2023	Initial Jobless Claims	25-Mar	196k	191k
3/30/2023	GDP Annualized QoQ	4Q T	2.70%	2.70%
3/30/2023	Continuing Claims	18-Mar	1697k	1694k
3/30/2023	GDP Price Index	4Q T	3.90%	3.90%
3/31/2023	Personal Income	Feb	0.20%	0.60%
3/31/2023	Personal Spending	Feb	0.30%	1.80%
3/31/2023	MNI Chicago PMI	Mar	43	43.6
3/31/2023	U. of Mich. Sentiment	Mar F	63.2	63.4

Future Fed Expectations

Source: Bloomberg

Fed Meeting	Implied	Change from
Date	Fed Funds	one-week prior
5/5/2023	4.92	-0.28
6/16/2023	4.88	-0.03
7/27/2023	4.82	-0.11
9/22/2023	4.58	-0.07
11/3/2023	4.30	-0.09
12/15/2023	4.23	-0.25
1/28/2024	4.16	-0.23
3/28/2024	3.94	-0.08
5/6/2024	3.66	0.04
6/17/2024	3.54	-0.10
7/28/2024	3.44	-0.11

as of 03/27/2023



Select Probabilities based on the Futures

Probability of Fed Funds rate HIKE on May 3, 2023	44%
Probability of Fed Funds rate HIKE on June 14, 2023	-29%

**All quoted rates are indications and are subject to change without notice.

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