

March 20, 2023 – Economic Commentary

As the Federal Reserve prepares for this week's FOMC (Federal Open Market Committee) meeting, the turmoil in US regional banks and the European banking system will be a new and uncertain factor. In addition to the question of how an additional rate hike would immediately impact bank balance sheets, there is a broader question regarding the near-to-medium term impact of the current banking problems on the US and global economies. For example, Goldman Sachs has reduced the outlook for European growth in 2023 by 0.3 percentage points due to the forced acquisition of Credit Suisse by UBS and the resulting re-pricing of banking sector risk in that market. In the US, it seems likely that a combination of heightened regulatory review and investor skittishness will ultimately translate into more cautious lending, especially by regional banks, which will have an as-yet unquantified negative effect on economic growth. Thus, the Fed is almost certainly cognizant that further rate hikes will play out in an economy that may be on the verge of weakening far more and far more quickly than once thought. A possible policy solution may be to raise rates 25bps while at the same time halting, albeit temporarily, the program of quantitative tightening. Though popular attention is almost always focused on changes in the Fed Funds rate, the Fed's quantitative tightening has been a significant factor in reducing liquidity and impacting the yield curve in such a way as to place stress on bank holdings of marketable securities.

Data to Watch:

1. US Existing Home Sales for February, released Tuesday, March 21
2. Federal Reserve Interest Rate Decision and Economic Projections ("SEP"), released Wednesday, March 22
3. S&P Global Preliminary Reports on Purchasing Managers Index for US in March, released Friday, March 24

Suggested Reading:

[How debt markets could still derail the rescue of Credit Suisse](#)

[A different kind of pipeline project scrambles Midwest politics](#)

[Amazon cuts another 9,000 jobs as tech layoffs mount](#)

[Hedge-fund manager Nelson Peltz says the government should insure all bank deposits – for a price](#)

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