

MARKET REVIEW

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MARKET COMMENTARY

Turmoil in the banking sector incited by the swift collapse of two U.S. regional banks was not necessarily an outcome of the rapid interest rate tightening cycle that started a year ago, but certainly laid the groundwork for potential accidents to unfold. Unlike the 2007/2008 Global Financial Crisis (GFS), the highly regulated, well-capitalized large banks will likely benefit from a flight-to-safety mindset.

Notwithstanding any actions regulatory authorities will take to stave off another GFS, financial conditions have tightened considerably over the past week and will have lasting economic consequences. Lingering uncertainty and elevated volatility will likely lead to widening credit spreads and tightening lending standards by banks. Regulatory oversight will increase across the financial sector including stricter capital standards which will dampen lending activity as banks shore up their balance sheets.

The situation is very fluid at present, and it is difficult to gauge how widespread the economic fallout will be. Inflation continues to moderate albeit the employment situation remains healthy for now. The pullback in equity markets and plummeting bond yields signal slower growth ahead. The recent turbulence in financial markets and financial contagion are key considerations for U.S. Fed policy going forward.

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