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ECONOMIC OUTLOOK

In the last month we saw the first big fallout of higher interest rates with the collapse of several major banks. Many banks had invested reserves in low yielding U.S. Treasury and agency bonds which declined in value as the Fed began raising interest rates a year ago. The decline in bond values subsequently decreased bank capital reserves.

On March 8th, Silicon Valley Bank (SVB) announced an attempt to raise capital and sold a $21 billion portfolio of U.S. Treasury and agency securities at a $1.8 billion after-tax loss. Tepid customers grew nervous about the news and began large withdrawal requests. On March 9th, the bank handled over $42 billion in withdrawal requests and that was followed by over $100 billion in withdrawal requests that would have gone out on Friday, March 10th. The bank run over two days of $142 billion represented a massive 81% of SVB's roughly $175 billion in deposits. Regulators seized the bank on March 10th and then two days later seized Signature Bank. These two banks represent the second- and third- largest bank failures in the United States, behind only the 2008 collapse of Washington Mutual.

In response to these bank failures, the Federal Reserve, the Federal Deposit Insurance Corporation, and the U.S. Department of the Treasury took extraordinary measures by guaranteeing all deposits at both banks. The Fed also announced the establishment of the Bank Term Funding Program (BTFP), which would provide loans for a duration of up to one year to eligible depository institutions such as banks, savings associations, and credit unions. These institutions can pledge U.S. Treasuries, agency debt, mortgage-backed securities, and other qualifying assets as collateral so that they do not have to sell them at a loss which would potentially exacerbate the problem.

Despite these moves, depositors continue to move deposits from small banks to large ones which poses several risks in the economy. Regional banks are relatively more reliant on deposit funding and tend to have a larger share of commercial and industrial (C&I) lending. Banks are tightening standards on C&I loans right now which means it will be harder for companies to buy new equipment, hire new employees, and expand.

This is just the start of a wider banking crisis. One that will get worse before it gets better. And banks outside of the U.S. are not isolated. In Switzerland, UBS Bank agreed to buy its rival Credit Suisse in a government-brokered deal for roughly $3.25 billion. The combined bank will have a balance sheet in excess of $1.7 trillion and is now one of the largest banks in the world. Banks are vulnerable to unrealized losses and assets that become mark-to-market could see steep write-downs. A deeper correction in real estate or re-pricing of debt could hurt bank capital and make lending difficult.

Credit conditions were already tightening prior to the banking crisis in the past month. A significant share of banks reported tightened standards on C&I loans to firms of all sizes during the fourth quarter, according to the most recent Senior Loan Officer survey which was collected in January before the collapse of SVB. The survey also showed that a significant share of banks reported tightening loan covenants and collateralization requirements to firms of all sizes. The banking crisis in March led to further tightening of credit conditions.

Prior to the bank collapses, the Fed Funds futures markets were showing a 0% chance of no increase and a 40% implied probability of a 50 basis point increase. After the collapse of SVB, the Fed Funds futures market suggested a 0% change of a 50 basis point increase and a 25% chance of no Fed move. As we know, the Fed raised rates by 25 basis points despite already tightening credit conditions. The probability that the Fed will raise rates too far has increased and the chance of a worse recession has probably increased as well.

On one hand, the Fed needs to maintain credibility. It was late to respond to higher inflation and should have started raising rates in 2021. At the same time, as credit restricts, it limits money which in turn will cut economic activity. This should be deflationary so some of what has transpired works to achieve the Fed's objective of lowering inflation. We now have much tighter financial conditions than we did. Also, employment gains in the last year have been driven by firms with less than 250 employees. Tightening credit conditions are going to hit this part of the economy the hardest.

Job growth in the U.S. was strong through February but the total number of hours worked fell 0.1%. Private-sector wages, which are a combination of total hours worked and average hourly earnings, rose just 0.2% in February, the smallest increase in two years. The labor market is a lagging indicator but we are starting to see signs of softness.

Central banks will be under additional pressure in the coming months. They are working to lower sticky inflation but now need to ensure they maintain financial stability. Slowing demand could be disinflationary. U.S. money supply is falling at its fastest rate since the 1930s, a result of the reversal of the excessive liquidity generated by fiscal and monetary stimulus in the wake of the pandemic, the Fed's shrinking balance sheet, falling bank deposits, and weak demand for credit.

Banks will be cautious, raising lending standards, protecting capital, and creating greater liquidity buffers. Expect the coming months to remain volatile.

8.5%

Euro area annual inflation was 8.5% in February, down from 8.6% in January.

$600B

Almost $600 billion in deposits have left banks since the Fed started raising rates last year.

-1.0%

New orders for durable goods fell 1% in February. Even orders excluding the transportation sector were softer than expected.

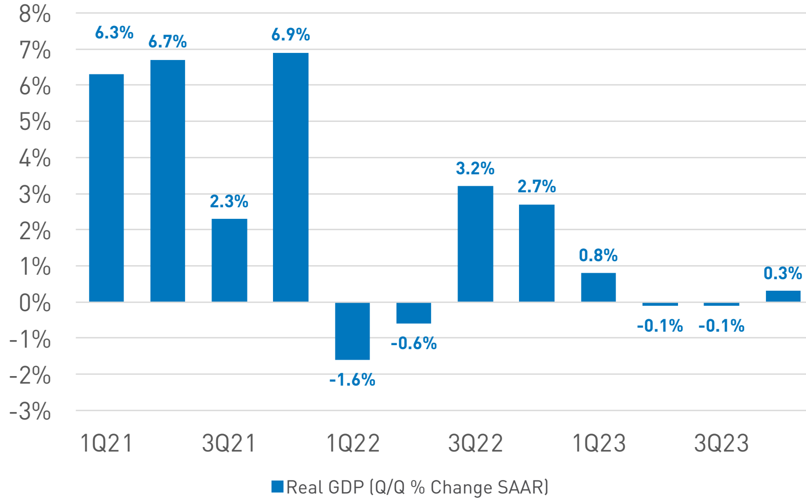
-0.4%

Retail sales declined 0.4% in February.

U.S. OUTLOOK

ECONOMIC GROWTH

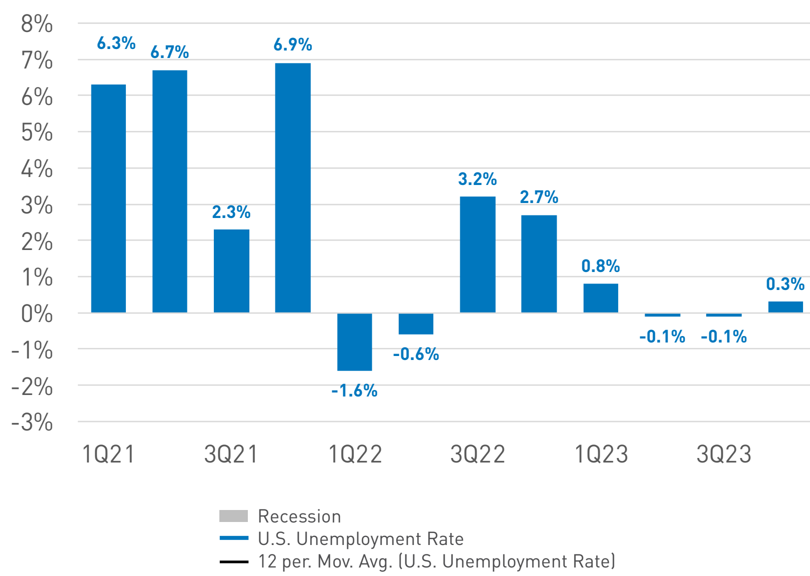
Revisions to the fourth quarter U.S. GDP report brought generally negative news. Growth was weaker than expected in Q4 and prices were higher. Real GDP was revised down to two-tenths of a percentage point to 2.7%. The downward revision was the result of weaker consumer spending and lower net exports which more than offset upward revisions to business investment. Consumer spending during the quarter was up 1.4%, down from the previous 2.1%. Net exports contributed 0.5 percentage points to GDP during the quarter but trade flows are weak and both imports and exports fell during the quarter. The one positive bit of news is that business investment was stronger than previously estimated.



	2023 ECONOMIC GROWTH (GDP % Change)	2024 ECONOMIC GROWTH (GDP % Change)	2023 EXCHANGE RATE (v. USD)	2024 EXCHANGE RATE (v. USD)
UNITED STATES	1.0%	1.1%	N/A	N/A
CANADA	0.7%	1.5%	1.32	1.28
MEXICO	1.0%	1.7%	19.58	20.40
EURO AREA	0.5%	1.3%	1.10	1.15
CHINA	5.1%	4.9%	6.77	6.51

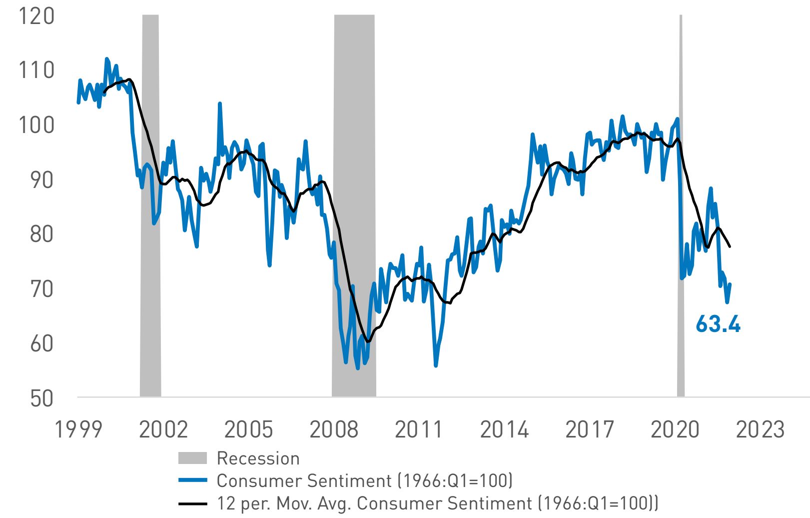
EMPLOYMENT

The U.S. job market remained strong in February, adding 311,000 new jobs even with a downward revision to payroll gains in December and January of 34,000 jobs. The unemployment rate rose from 3.4% to 3.6% due to an increase in the labor force by 419,000. Labor force participation rose to 62.5%, the highest rate since March 2020. As the economy softens, individuals appear to be reentering the labor market. Average hourly earnings rose a tepid 0.2% during the month, suggesting job growth has slowed in higher wage occupations or at higher paying companies.



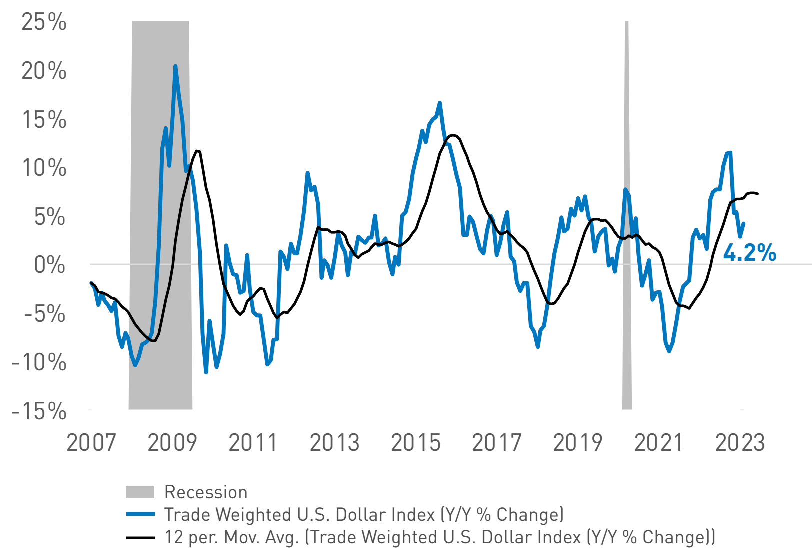
SENTIMENT

The Index of Consumer Sentiment rose 3.2% in February to 67, but fell in early March for the first time in four months. The Index is about 5% below last month's reading but up about 7% from a year-ago. Sentiment could decline further during the month of March as consumers internalize the banking crisis. Inflation expectations also fell during the month. Long-term inflation expectations dropped below the narrow 2.9%-3.1% range for only the second month in the last 20 months. Year-ahead inflation expectations are still higher than pre-pandemic levels but continue to recede and are at the lowest levels since April 2021.



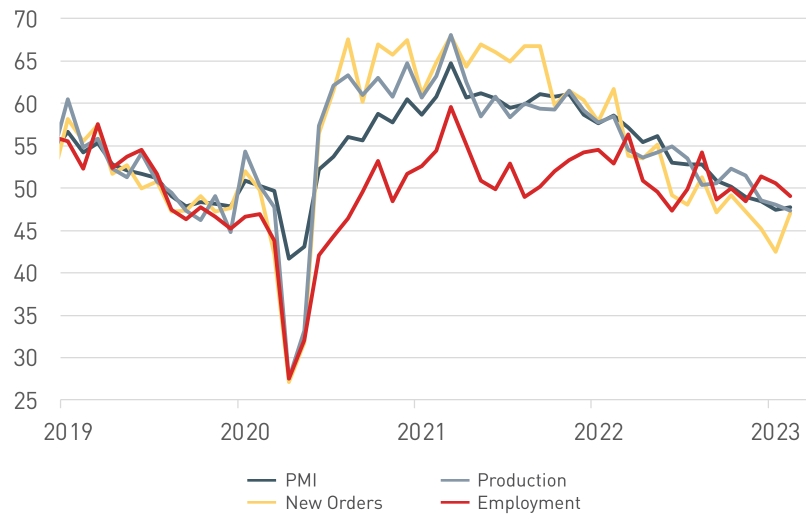
TRADE-WEIGHTED U.S. DOLLAR INDEX

The dollar's value slid in the aftermath of the SVB collapse. Despite the Fed's 25 basis point increase in March, the outlook for future Fed rate hikes declined significantly. Market expectations of future Fed action weakened in the aftermath of the SVB bailout. Short-dated Treasury yields declined and reduced what had been a major driver of dollar strength. Market yields on U.S. Treasuries at 2-year constant maturity declined roughly one full percentage point during March. Despite the significant uncertainties brought on by the banking crisis and the dollar typically offering a safe-haven, the decline in the dollar value reflects a reprising of the Fed rate outlook. Right now the probability of a rate hike in June to take the Fed Funds rate to 5%-5.25% is just 43%, down from near certainty a month ago.



MANUFACTURERS' SENTIMENT (PMI)

U.S. manufacturing sentiment contracted for a third consecutive month, falling from 48.4 to 47.4 in January. The New Orders Index contracted for a fifth consecutive month and the Production Index contracted for a second consecutive month. Some sectors of the economy are carrying excess inventory and many manufacturers are likely slowing output to better align with demand. The Inventories Index also expanded less quickly this month, suggesting manufacturers are keeping an eye on inventory levels. The Prices Index rose this month, but remains in contractionary territory suggesting prices continue to decline for the majority of manufacturers.



U.S. END MARKETS FOR ELECTRONICS

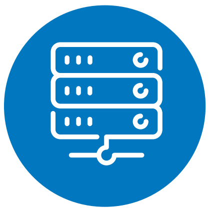
U.S. industrial production was unchanged in February, but was down 0.4% including revisions to prior months and came in below consensus expectations of a 0.2% increase. The manufacturing sector improved 0.1% in January. Utilities output rose 0.5% in February, while mining fell 0.6%. Industrial production is now down 4.5% at an annualized rate over the past three months.

AUTOMOTIVE PRODUCTS

Auto production fell 0.6% during the month while non-auto manufacturing was up 0.1%. Auto production is up 9.1% in the past year, while non-auto manufacturing is down 1.9%.

TRANSIT EQUIPMENT

Transit equipment production fell 2% during the month. The sector is up 13.1% over the last year.

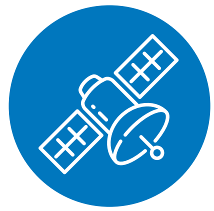


INFORMATION PROCESSING & RELATED EQUIPMENT

Production in the information processing and related equipment sector rose 0.3% during the month. The sector is up 1.1% over the last year.

INDUSTRIAL & OTHER EQUIPMENT

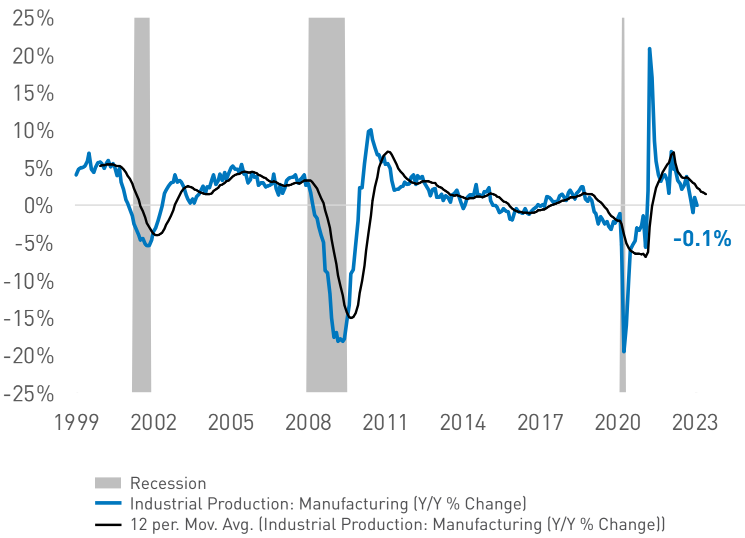
The industrial sector fell 0.1% during the last month. The sector is still up 2.1% over the last year.



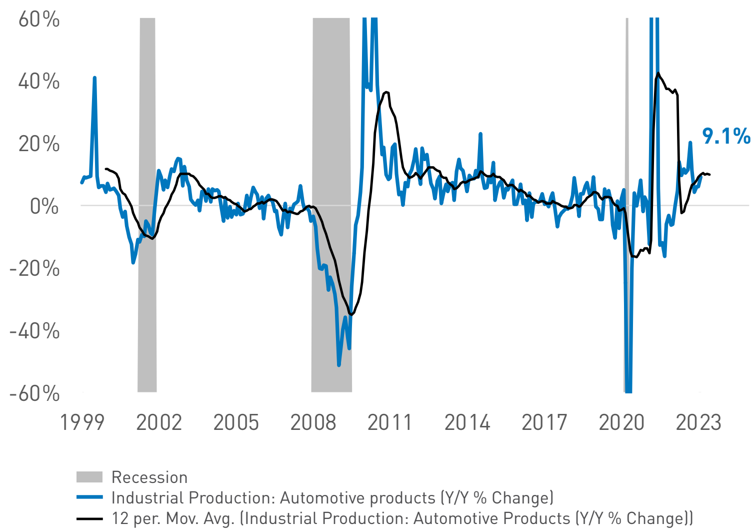
DEFENSE & SPACE EQUIPMENT

The defense and space equipment segment rose 0.6% to another new all-time high. The sector is up 2.3% over the last year.

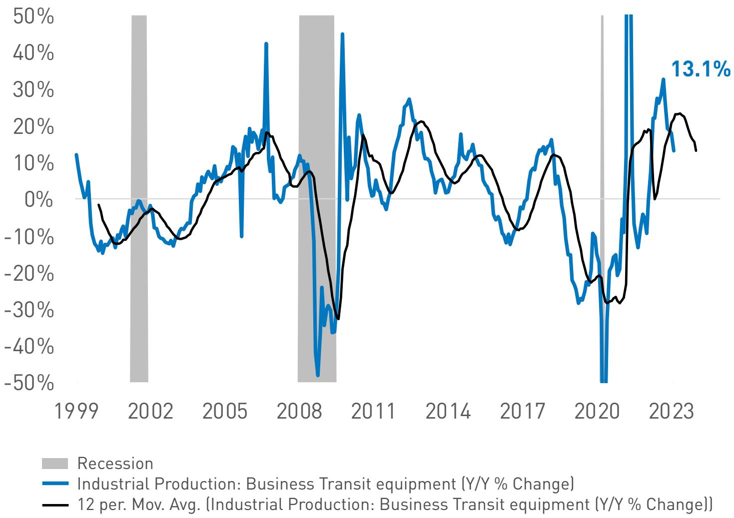
Manufacturing



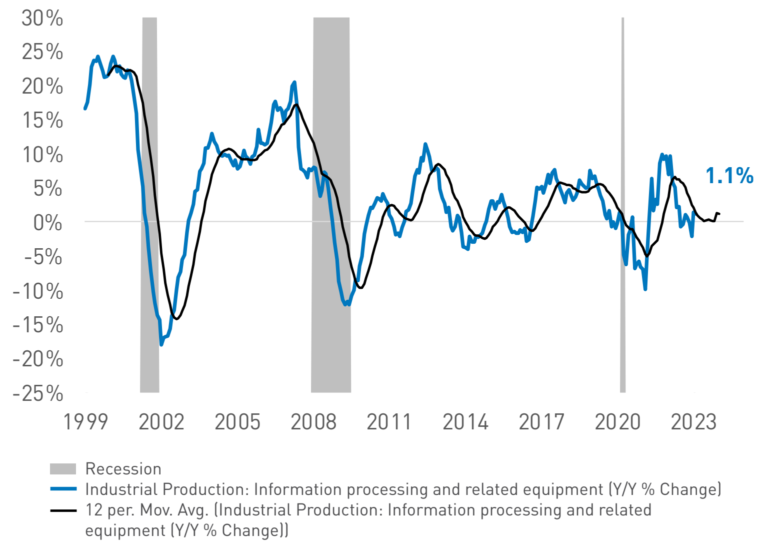
Automotive Products



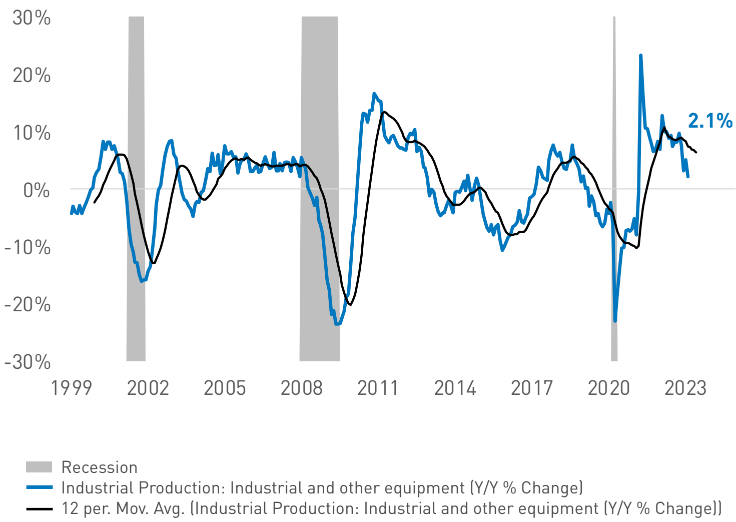
Business Transit Equipment (Y/Y % Change)



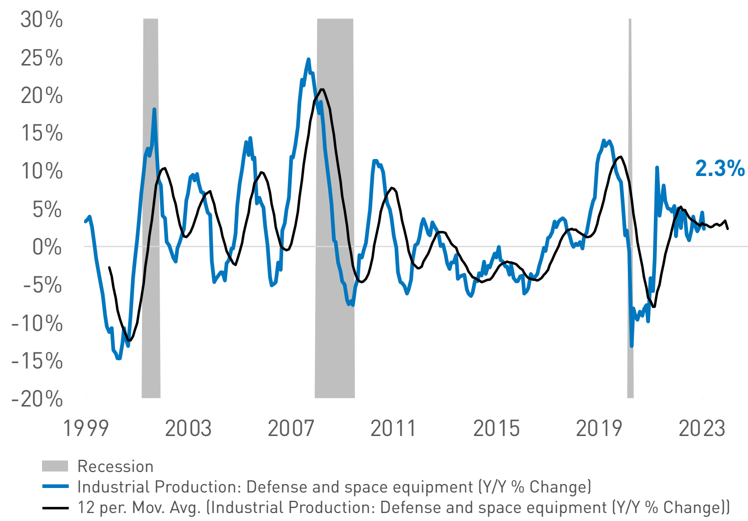
Information Processing & Related Equipment (Y/Y % Change)



Industrial & Other Equipment (Y/Y % Change)



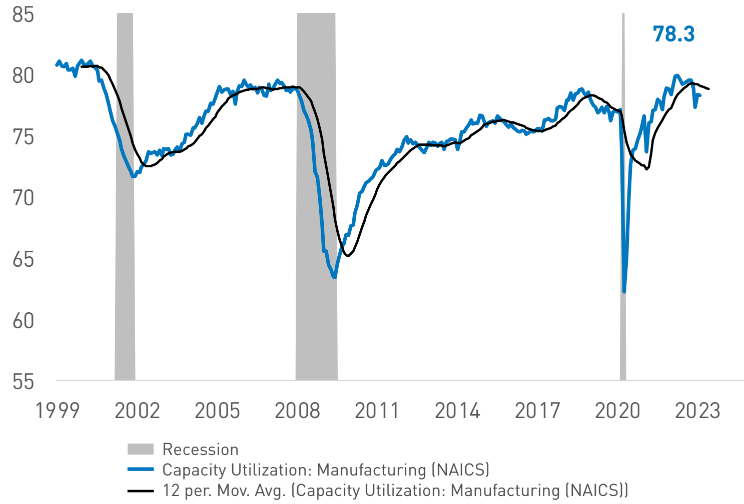
Defense & Space Equipment (Y/Y % Change)



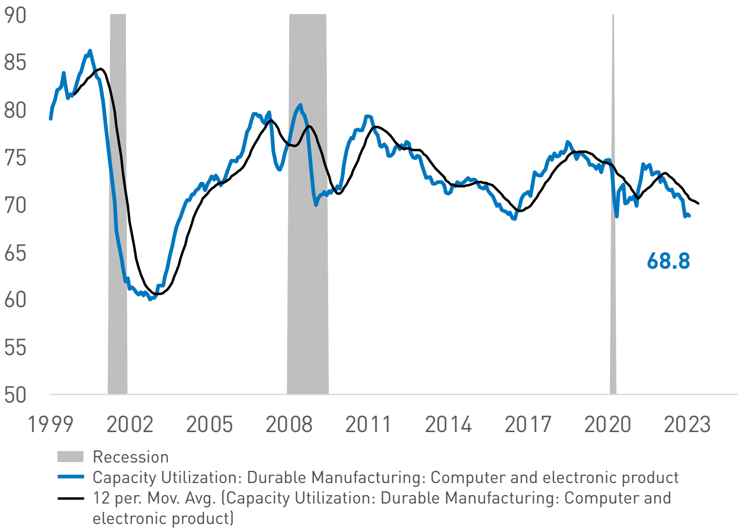
MANUFACTURING CAPACITY UTILIZATION

Overall capacity utilization was unchanged during the month at 78%. Manufacturing capacity fell from 77.7% to 77.6%. Computer and electronic production capacity utilization fell to 68.8%. Electrical equipment, appliances and components utilization rose 0.4% to 78.5%. Utilization in the auto sector fell 0.8% to 72%. Capacity utilization in the aerospace and miscellaneous transportation equipment sector declined to 67.9%.

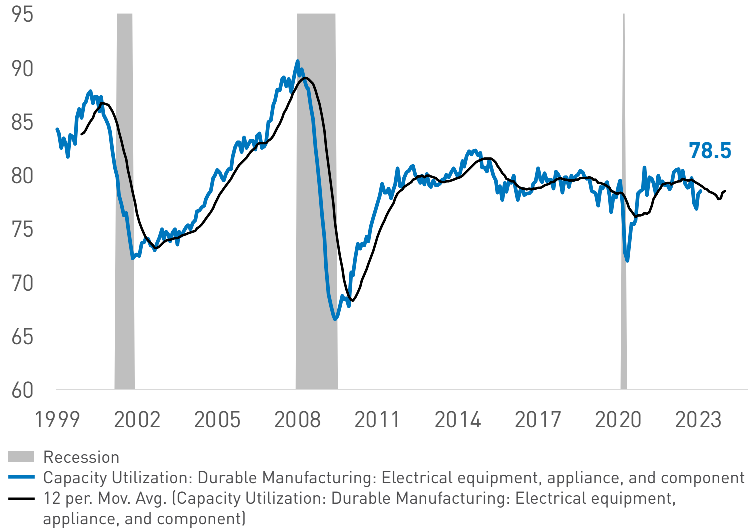
Manufacturing (NAICS)



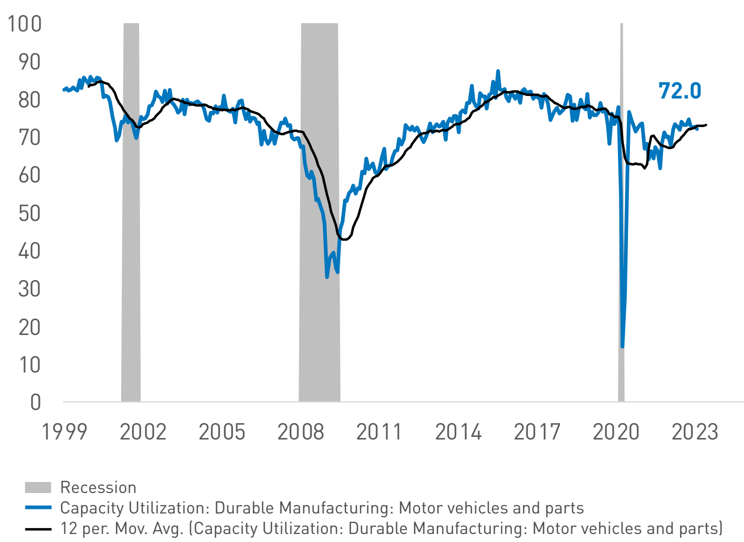
Computer & Electronic Product



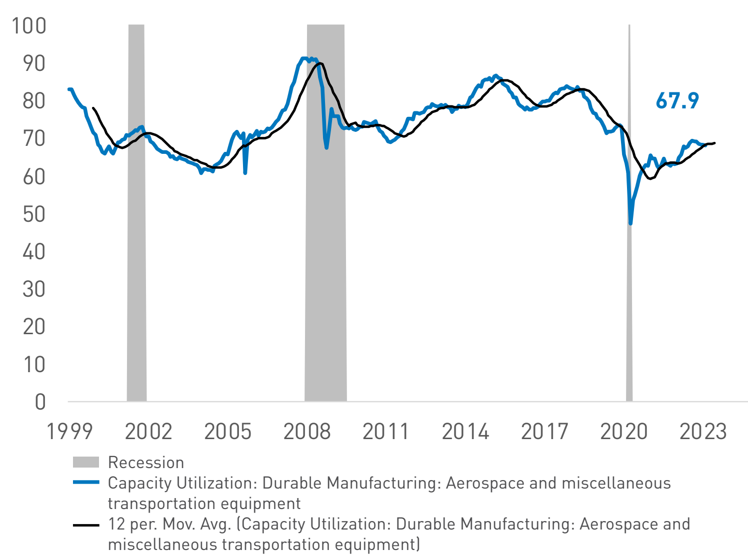
Electrical Equipment, Appliance, & Component



Motor Vehicles & Parts



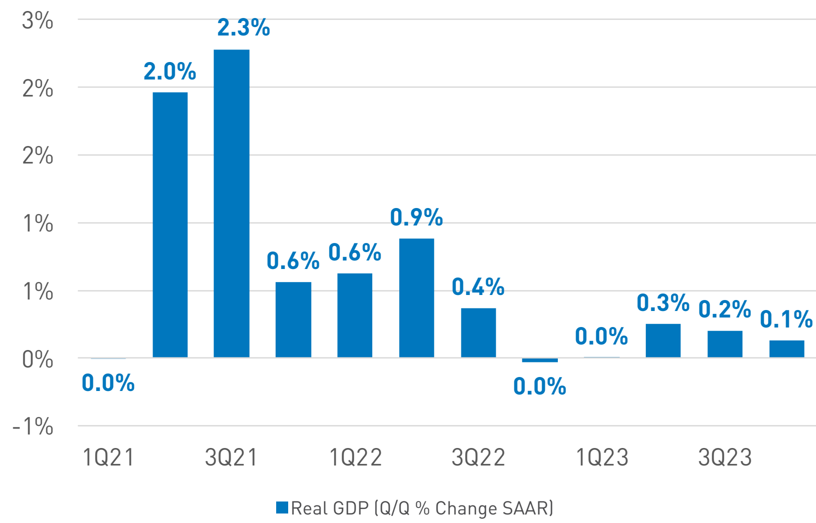
Aerospace & Miscellaneous Transportation Equipment



EUROPEAN OUTLOOK

ECONOMIC GROWTH

Economic growth in the euro area was flat in the fourth quarter. The EU's economy fell a revised 01% in Q4. Year-over-year, the euro area is up 1.9% while the EU is up 1.7%. For the year 2022, GDP increased 3.5% in both the euro area as well as the EU. In 2021, the euro area was up 5.3% and the EU was up 5.4%. Greece (+1.4%) recorded the highest increase of GDP compared to the prior quarter followed by Malta (+1.2%) and Cyprus (+1.1%). The highest decreases were observed in Poland (-2.4%), Estonia (-1.6%) and Finland (-0.6%).

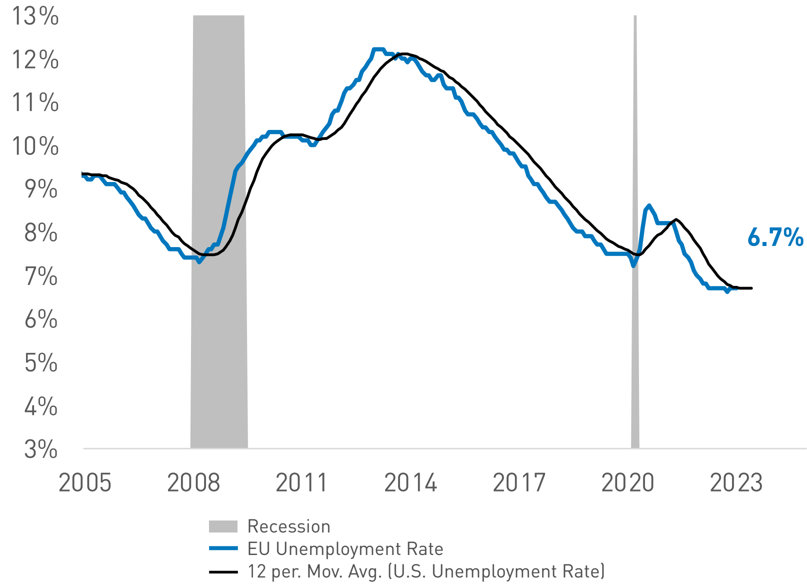


	Q/Q PERCENTAGE CHANGE				Y/Y PERCENTAGE CHANGE			
	2022Q1	2022Q2	2022Q3	2022Q4	2022Q1	2022Q2	2022Q3	2022Q4
EURO AREA	0.6%	0.9%	0.4%	0.0%	5.5%	4.4%	2.5%	1.9%
EU (27)	0.7%	0.7%	0.4%	-0.1%	5.7%	4.4%	2.6%	1.7%
GERMANY	0.8%	0.1%	0.5%	-0.4%	3.5%	1.7%	1.4%	0.9%
FRANCE	-0.2%	0.5%	0.2%	0.1%	4.8%	4.2%	1.0%	0.5%
ITALY	0.1%	1.0%	0.4%	-0.1%	6.5%	5.1%	2.5%	0.5%
SPAIN	0.0%	2.2%	0.2%	0.2%	6.9%	7.8%	4.8%	2.7%

	2023 ECONOMIC GROWTH (GDP % CHANGE)	2024 ECONOMIC GROWTH (GDP % CHANGE)
EURO AREA	0.5%	1.3%
GERMANY	0.2%	1.4%
FRANCE	0.4%	1.2%
NETHERLANDS	0.6%	1.4%

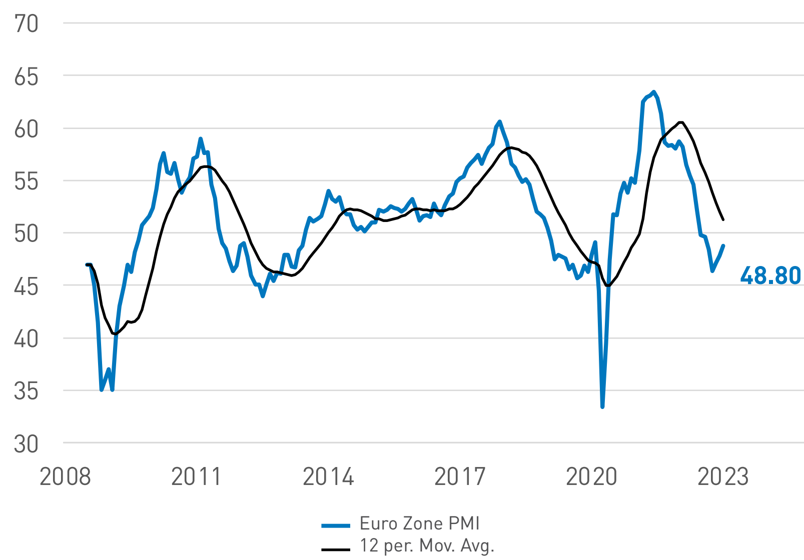
EMPLOYMENT

The unemployment rate for the euro area was stable at 6.7% in January. The euro area seasonally-adjusted unemployment rate was down from 6.9% in January 2022. The EU unemployment rate also held steady at 6.1% in January for the 10th consecutive month. This is down from 6.3% last January. Czechia saw its unemployment rate increase 0.2 percentage points to 2.5% during the month, remaining the lowest unemployment rate in Europe. Spain reported the highest unemployment rate at 13%. Germany's unemployment rate was unchanged at 3%.



MANUFACTURERS' SENTIMENT (PMI)

The S&P Global Eurozone Manufacturing PMI moved slightly lower in February, declining from 48.8 to 48.5. Manufacturing production in the euro area largely stabilized after eight months of contraction. Supply chains continue to improve which is easing strains on production schedules. The manufacturing output index rose to 50.1, marking a nine month high. Supplier delivery times shortened to the largest extent since May 2009. Easing supply constraints and slowing demand are resulting in lower costs. New orders fell for a tenth consecutive month as a result of weaker demand and improving supply chain dynamics. Companies are destocking inventory and working to be more lean.



E.U. END MARKETS FOR ELECTRONICS

Manufacturing output rose in January. Output increased 0.8% (month-on-month) and is up 1.7% over the last year.

COMPUTER, ELECTRONIC, & OPTICAL PRODUCTS

The electronics industry, which includes categories such as components, loaded boards, computers, communications equipment, and consumer electronics, rose 4.5% (month-on-month) in January. The sector is up 10.4% over the last year.

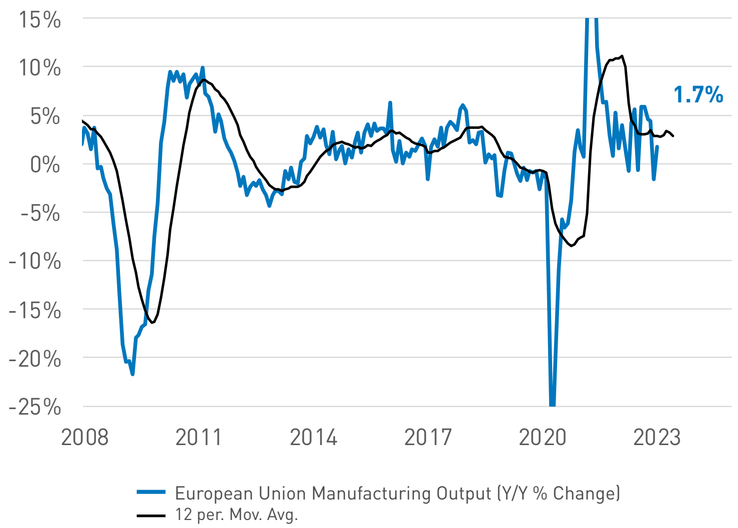
MOTOR VEHICLES

Motor vehicle manufacturing output fell 6.9% (month-on-month) during the month. The sector is up 12.6% over the last year.

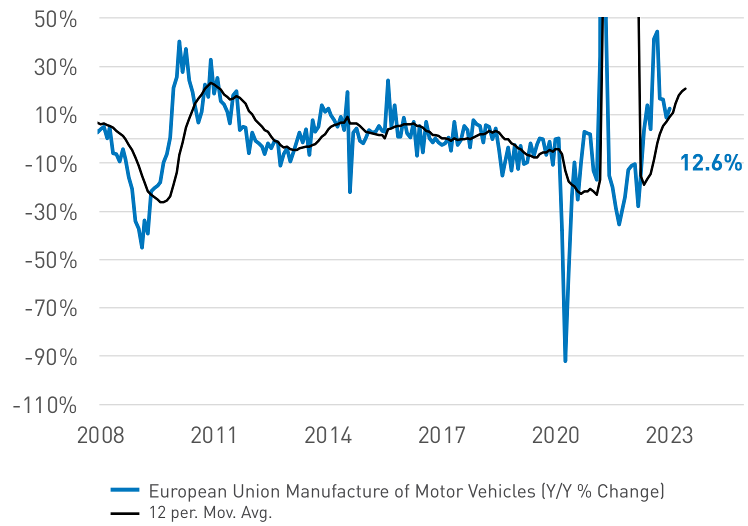
AIR & SPACECRAFT & RELATED MACHINERY

The air and spacecraft manufacturing sector fell 6% in January. The segment is up 6.5% over the last year.

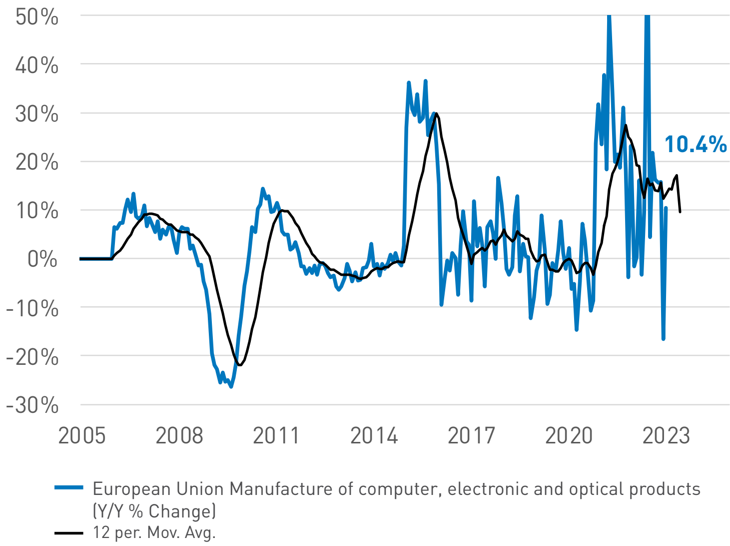
E.U. Manufacturing Output



E.U. Manufacture of Motor Vehicles



E.U. Manufacture of Computer, Electronic & Optical Products (Y/Y % Change)



E.U. Manufacture of Air & Spacecraft & Related Machinery (Y/Y % Change)