Weekly Update

3/13/23

		Last Week	YTD Returns
Domestic Equities	S&P 500	-4.51%	0.92%
International Developed	MSCI EAFE	-0.75%	6.00%
Emerging Market	MSCI EM	-3.29%	0.05%
Fixed Income	Bloomberg US Agg Bond	1.17%	1.45%

Index returns are from YCharts and are calculated on a total return basis, with dividends reinvested.

The news late last week that Silicon Valley Bank (SVB) and Signature Bank were under distress and ultimately seized by regulators caused major ripples through markets. Both banks were niche regional banks that catered to Silicon Valley startups and crypto investors, respectively. In essence, as bank depositors faced liquidity needs they were pulling assets, which snowballed into a run on the banks. In SVB's case, they had invested a large sum in safe but largely long-term treasury and mortgage-backed securities. As rates had risen over the last year, the value of those securities had gone down. When forced to sell those bonds to raise cash to pay depositors, those losses became real and the bank was forced to seek capital in markets. In Signature's case, they had also been stressed since the fall of the crypto exchange FTX late last year.

Over the weekend, the Federal Reserve announced the creation of the Bank Term Fund Program. This program will allow banks to use eligible assets, such as treasuries and mortgage-backed securities, as collateral for short-term loans. This will provide liquidity for banks and help to ease the need for more forced selling. Additionally, the government has said that all depositors (not shareholders or bondholders) at these two banks will be made whole, and taxpayers will not be liable for any losses to support depositors with balances above the standard $250,000 FDIC limit.

At this time, there is little reason to believe that this situation will escalate into a bigger issue for regional banks. This is not a repeat of the 2008 financial crisis, as both of these banks were highly specialized cases. While others might be out there, the banking industry as a whole is in much better shape now than it was in 2008. Regulations put in place after the financial crisis have strengthened the biggest banks considerably, and we might see some of those same regulations now filter down to smaller regional players. Investors are likely to remain uneasy in the coming days, but as confidence is restored we expect that things will return to normal. The Fed meeting this week will be interesting as a new ripple has been added to their policy decision, and a pause on the expected 0.25% rate hike could be in order.