Family Wealth Counsel Advisory Group | RAYMOND JAMES®

Investment Commentary March 2023

What is happening with the banks?

During the past week, U.S. Financials declined by approximately 10 per cent and Canadian Financials declined by approximately three per cent. The weakness was caused by troubles in the banking sector, a situation culminating in the closure of SVB Financial Group on March 10th. The commercial lender had approximately $210 billion in assets, and $175 billion in deposits, at the time of receivership. Then on March 12th, New York State financial regulators announced the closure of Signature Bank, a commercial bank with $110 billion in assets.

The risk of financial contagion was very real given that two of the top 30 largest banks ranked by asset size failed in the span of a few days. Depositors, which were mostly Institutional, at these large institutions were only insured for up to $250,000. The fear became that depositors might chaotically and rapidly begin to withdraw funds from other institutions. The potential for a liquidity crisis, one that could lead to a solvency crisis, in the banking industry was something that the authorities were undoubtedly aware of. Therefore, they implemented a couple of measures to contain this crisis. On the evening of March 12th, the Federal Reserve, Treasury Department, and Federal Deposit Insurance Corporation (FDIC) announced forceful action to lower the risk of financial contagion:

1. Treasury instructed the FDIC to make whole all deposits of both banks, not just those accounts under the $250,000 threshold. A special assessment will be levied on the banking industry to support the uninsured depositors. Account holders will have access to their funds on the morning of March 13.
2. The Federal Reserve introduced a generous new emergency lending facility, which will make loans of up to a year to depository institutions. Qualifying assets used as collateral for the loans will be valued at par, rather than marked to market.

This week has also exposed issues at Credit Suisse and First Republic Bank. However, steps have also been taken to provide some stability. Canadian banks have experienced less downward pressure due to their high level of capital requirements and stringent regulations. While they are down in sympathy, it is highly unlikely they will experience the fate of a regional U.S. bank. We continue to have confidence in these institutions.

We expect continued volatility, and particularly over the next week as the markets are pricing in a halt to rate increases by the Federal Reserve. It is unclear as to which direction will it go in, but we will be watching closely.

At the beginning of the year, we further reduced our exposure to equities and have continued to increase our fixed income exposure to reduce volatility and to take advantage of higher rates that we have not been able to obtain for many years. This has been a challenging time in the market and a long down cycle. It will come to an end and in the interim, you can try to gain some peace of mind that your portfolio contains very high quality assets and secure fixed income, which will provide very constructive yields over the next twelve months. It important as always to focus on long-term goals.

If you have any concerns or would like to discuss your current portfolio positioning, please do not hesitate to contact us.

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