

April 2023

As we eagerly look ahead to the warmer weather and longer days, the noted poet, Anne Bradstreet, once said, “If we had no winter, the spring would not be so pleasant.” How fitting when we apply that to the economy! The good times would not seem so good without enduring the tougher economic down-turns!

I thought it was important to touch on the latest bank failures. Silicon Valley Bank (SVB), has garnered the most attention, and failed, in part, because of a lack of interest rate risk management. The bank bought long term bonds over the past several years and didn’t manage their duration or interest rate risk. So as rates rose over the past year, longer dated bonds dropped in market value. Over the past number of months, many of its technology startup company clients had to withdraw cash from their accounts, as they were unable to raise new funds from investors. Once SVB said that it had sold its bond holdings and was looking to raise more than \$2 billion in capital to shore up its financial position—staggering withdrawals unfolded, enabled by digital banking, and fueled in part by viral panic spreading on-line and in private chat groups. In the ensuing 24 hours, \$42 billion was withdrawn from accounts, leaving the bank with a negative \$1 billion cash balance.

According to Tom Essaye from the **Sevens Report**, the major difference between 2008 and now is that in 2008, the assets held at banks (mortgages on homes) were hopelessly “underwater”. The home values were much less than the mortgages owned, which created massive losses and solvency issues. Today, the assets held at banks (treasuries and agency mortgages) are worth what the banks paid for them (par value) as long as they don’t have to be sold in distress. This makes a liquidity issue (which Central Banks can solve) not a solvency issue (which only governments can solve). That is an important and positive difference to keep in mind.

The Fed has removed that risk by accepting these bonds from banks at par, thereby eliminating the need for a bank like SVB to fire sale the US Treasuries at a significant loss. Also, the Fed has created a new lending facility, the **Bank Term Funding Program** that will accept treasuries and agency mortgage-backed securities as collateral, and will value bonds at par (not the current lower market values). This, along with the government’s response guaranteeing all deposits (above FDIC levels) for these distressed banks, has lessened the threat of another bank run. Since these issues won’t go away overnight, chances are they will continue to add volatility to an already on-edge market.

(OVER)

The Central Bank raised rates by a quarter of a percentage point on Wednesday March 22nd, bringing the Fed Funds rate to 4.75% - 5%. They acknowledged the recent turmoil in the banking sector and indicated that rate hikes are nearing an end, (however there may be one more increase of .25% to come).

The stock market tends to struggle during increasing rate cycles. Inflation is continuing to ease over time, albeit with some bumpy data month to month. The end of a rate hike cycle and cooling inflation make for a more positive set-up for stocks in time, but market volatility can be expected in the coming months. Continued attention to overall stock allocation and tolerance for risk will be key. Keeping a longer-term perspective in mind – I have included a handout from Vanguard titled “**Market Risk and Reward**” which shows the long term average annual returns for various asset allocations between US Stocks and Bonds.

As noted in our last letter, the **Secure Act 2.0** continues to update deferred tax accounts including: **Required Minimum Distributions** for owners of inherited Beneficiary IRA accounts; **New RMD** ages starting in 2023; and some options, in 2024, for 529 Plans that are no longer need for education. We will update you on further details in our next quarterly letter.

The **TD Ameritrade** and **Schwab** conversion process is set to take place over Labor Day weekend, 2023. Statements going forward from the month of September will have the new **Schwab** format. Current online access with **Advisor Client** will change over to **Schwab Alliance**. I’m confident that you will notice an enhancement with the statement design as well as the online capabilities. I feel strongly that **Schwab’s** stability, size, and leadership in the industry will provide for cutting edge technology and great service in the years to come.

At the same time, I for one am not a big fan of change, especially when something has been working just fine all along. So, there will be a bit of adjustment for both you and I – but we will tackle this just as we have done with other obstacle over the years. Coral Murphy and I have been working together for 25 years here at Pearson Financial, throughout many institutional changes, tumultuous investment times, and difficult personal losses.

Our Service Team, including Andrew Fowler, Debra Pierce and Scott Schwendermen, have been with us now for between 5 and 10 years. They are experienced in providing ongoing client support whenever you should need any help. They are on the front-line, answering calls from you every day and that will continue over time, as we do not believe in using voice mail. The relationships that we have built with (you) our clients, in many cases, has transcended generations. That, in part, is what makes me so very proud of what we do. We are in business because of you, and through your success over the years, our firm has continued to grow.

As always, if you have any questions at all, please do not hesitate to call.

Sincerely,



Bryan Bastoni, CFP
CERTIFIED FINANCIAL PLANNER, TM