April 2023 Market Newsletter

March 31, 2023

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Opening Comments

- The markets have certainly embraced the spirit of "March Madness" this month! Headlines regarding banking liquidity crises have dominated the news cycle of late. We have included an explanation below, but if you have any questions, please do not hesitate to ask!
- The personal tax filing deadline of April 30 is fast approaching! All tax slips and information should be issued as of March 31, but if you are missing any information please reach out to us sooner rather than later.

Silicon Valley Bank

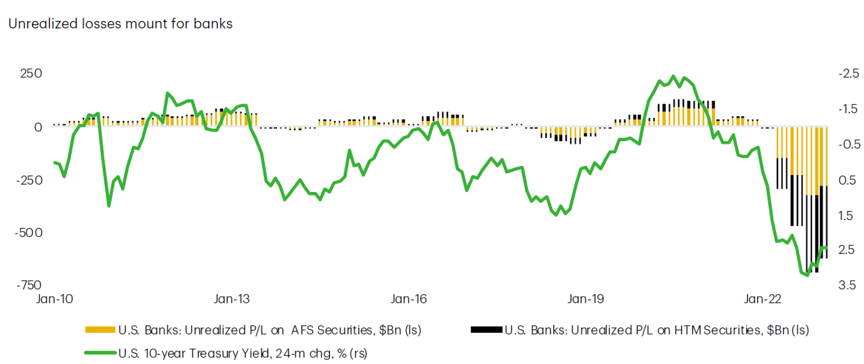
- Silicon Valley Bank (SVB), was shut down by the Federal Deposit Insurance Corp. (FDIC) after the California based regional bank experienced a run on deposits. SVB was a U.S. regional bank that offered banking services to technology, life-sciences and healthcare companies, making it an integral part of the venture-capital (VC) ecosystem.
- SVB's clients started withdrawing deposits. To meet the deposit outflow, SVB was forced to sell $21 billion USD from its bond portfolio, which resulted in crystallizing a loss of $1.8 billion USD. The situation deteriorated quickly when VC firms suggested to some companies that they consider pulling money out of SVB, as concerns grew over the bank's stability.
- At times like this many investors have flashbacks to the global financial crisis, but this is a very different environment. The collapse of Lehman Bros. came as a result of the bank's large position in sub-prime mortgages, which it was unable to sell. In contrast, the losses that were incurred by SVB (and other banks) were a result of a rapid increase in interest rates.
- SVB had two company-specific problems: (1) high exposure to the tech industry and venture capital; and (2) due to its size, the bank was not subject to the same liquidity requirements as larger banks to meet deposit outflows. This made its business model unique, which leads us to believe that a contagion is highly unlikely. SVB has recently been acquired by First Citizens Bank which should backstop some of the liquidity issues.

Credit Suisse

- Credit Suisse (CS) has been lurching from one crisis to another in recent years. CS's stock price performance has diverged from its peers since March 2021, when news first broke that the bank faces mounting losses from margin lending. The bank's financial statements revealed that customers pulled out funds to the tune of $110 Billion CHF in the fourth quarter of 2022, implying that investor confidence in the bank is at its lowest point since 2008.
- UBS, Switzerland's largest bank, will buy CS for 3 billion Swiss francs, and CS shareholders are going to take a big hit. Shareholders will get one share of UBS for every 22.48 shares of CS, which is a 99 per cent decline from CS's peak in 2007.

First Republic Bank

- First Republic Bank (FRB) faces uncertainty after the fallout from the failures of other banks and rising withdrawals.
- FRB staved off a potential collapse after 11 of the biggest US banks agreed to park a combined $30 billion in deposits with the California lender, but the injection was a short-term fix. Total deposits had dropped $89 billion in the week ended March 17, or about 3 times more than the injection they received.
- The US Federal Reserve and FDIC continue to monitor the situation and it is possible that the bank is purchased in a deal similar to UBS's purchase of Credit Suisse, with shareholders possibly being diluted significantly.

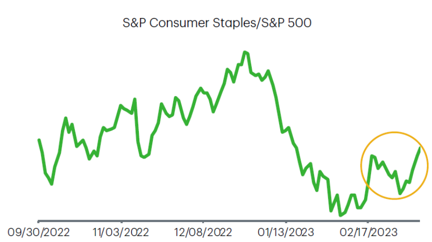


Source: FDIC, Bloomberg Finance L.P. as of March 13, 2023

Looking Forward

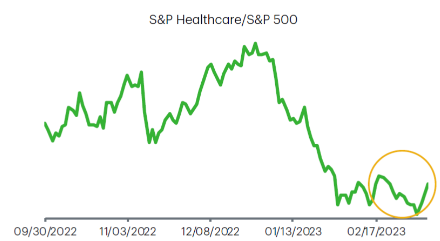
- During the later stages of the business cycle, financial accidents tend to be more common as liquidity and monetary conditions tighten, and the current problem surrounding U.S. regional banks fit this profile. We believe it's likely that the flight to safe-haven assets will initially trigger further outperformance of bonds over equities.
- Since March 9th, the correlation between stocks and bonds has become negative. We continue to favor bonds over equities. We expect demand for short-term fixed income instruments will remain high, not only due to its yield advantage, but also the liquidity advantage and lower volatility. We expect equity markets to remain volatile in the near term as the lagged impact of tighter monetary policy slows economic activity and earnings growth this year.
- Despite the ongoing, perilous macro backdrop indicative of a late-stage economy moving towards a potential recession and tightening monetary policy, defensive areas of the market, such as health-care and consumer staples, which tend to outperform in these economic conditions, have been ignored for more speculative equities in technology, communication services and consumer discretionary sectors, which would typically be avoided at this stage of the cycle.

Staples vs. S&P 500



Source: FactSet as of March 13, 2023.

Health care vs. S&P 500



Source: FactSet as of March 13, 2023.

Closing Thoughts

- As always, we believe in taking a portfolio approach to managing investments. While the events over the past month have broader implications, we believe that the overall outlook remains largely unchanged. We believe that we are in a late stage economic environment and we continue to manage our asset allocation within that framework. - Andrew & Nathan

Market Performance (Source: Bloomberg)			
	Mar. 31 2023	Dec. 31, 2022	YTD Change
Equity Index Update			
S&P 500	4109	3840	+7.0%
S&P/TSX Comp.	20099	19385	+3.7%
MSCI EAFE	2093	1944	+7.7%
Government Bond Yields			
U.S. 10-yr Treasury	3.47	3.88	-0.41
Canada 10-yr Bond	2.88	3.30	-0.42
Foreign Exchange Cross Rates			
C$ (USD per CAD)	0.74	0.74	0.0%
Euro (USD per EUR)	1.09	1.06	+2.8%
Official Policy Rate Targets Central Banks		Current Target	
Federal Reserve (Fed Funds Rate)		4.75% - 5.00%	
Bank of Canada (Overnight Rate)		4.5%	

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