FROM THE PFS INVESTMENT COMMITTEE

SILICON VALLEY BANK AND SIGNATURE BANK CLOSURES

A white paper from the PFS Investment Committee

ABSTRACT

The events that have occurred over the past week are historic and will take some time to digest. The full ramifications are still unknown. In times like these, as in times before it, many prognosticators emerge that seem to "know all." We urge a cautious approach as the fallout from these bank closures works through the financial system. Initial reactions by federal agencies were strong and decisive – putting a Band-Aid on a deeper wound that stopped short-term bleeding. The bottom line is this: there is still more we don't know, than we do know.

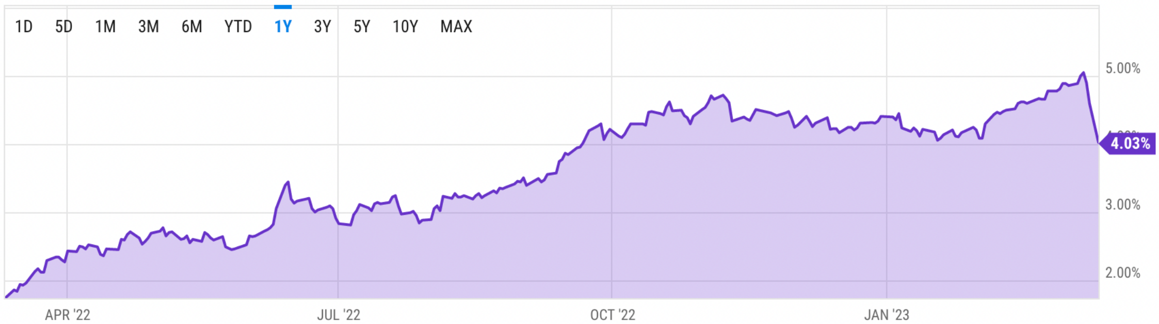
SUMMARY

The recent closure of Silicon Valley Bank and Signature Bank resulted in a forceful response by the Federal Reserve and the FDIC. This event has been attributed to a duration mismatch and heavy exposure to tech start-ups for Silicon Valley Bank, and heavy exposure to crypto for Signature Bank. ***The closure of these banks is part of the lagged impact of aggressive Fed tightening.***

Due to the failures, expectations for "higher for longer" by the Fed are now in question, and it may soon pause rate increases. Tightening bank regulations, tougher supervision, and higher capital requirements are expected because of these closures. Confidence and visibility toward stabilization are not yet evident, and there is still much uncertainty surrounding the future of the financial industry.

TWO-YEAR TREASURY

As a result of the closures, the bond market reacted swiftly. The 2-year treasure dropped in historic fashion as demonstrated below:



Source: Y-Charts

This drop indicates that the Fed's earlier determined path forward -- raising rates at their next meeting and keeping rates higher for longer to combat inflation -- is viewed as unlikely by market observers. Conversely, the market is indicating that it believes rate hikes will slow and perhaps drop.

The fall in the two-year will likely make cost-of-capital cheaper (i.e. borrowing to buy new businesses, cars, and houses) due to lower borrowing rates. Most economists believe this will aggravate the inflation dilemma the economy currently faces.

WHAT DOES THIS MEAN FOR ME?

Our investment committee continues to monitor the macro-economic situation. In many of our portfolios, we have tactical asset management which allows us to move in and out of the markets depending on economic indicators. In addition, we focus on owning quality – we like to know what we own and why we own it. The companies we own tend to be high-quality, blue-chip, dividend paying entities. We remain confident in these companies.

We will keep our clients informed of developments and adjustments to their portfolios as the situation continues to unfold. We have developed a playbook for these kinds of "black swans" and "floods." Now we execute our playbook.

Onward and Upward.