NATIONAL BANK FINANCIAL WEALTH MANAGEMENT

GLOBAL WEALTH

Conservative income

March 2023 Edition

US Regional Banks ~ Laurel Hickey & Garth Bluekens

What's US Regional Banks Got To Do With It?

At the start of this month, the US banking sector made headlines with the collapse of Silicon Valley Bank, a prominent lender in the start-up space. With the growth of the tech industry in the past few years, Silicon Valley Bank had a large inflow of deposits. Some of these deposits were invested in investments exposed to interest rate risk, like US treasuries and mortgage-backed securities. Rising interest rates also hit the tech industry as less funding was coming in and they needed to withdraw more of their deposits. This put pressure on Silicon Valley Bank and pushed them to sell investments at a loss to cover deposits.[1] Even though Silicon Valley Bank may be small in comparison to other market participants, the collapse sent ripples through the market. This fear caused a large movement of deposits from regional banks to larger US banks, like JP Morgan and Wells Fargo, as depositors wanted to ensure their funds were safe. Hearing of US bank failure takes us back to similar emotions experienced in 2008. Due to the size of the US, the effects of this collapse can be felt worldwide, but we can't make a direct comparison with the Canada banking sector. In Canada, we have fewer banks than the state of North Dakota alone versus the US that had at the end of last year a total of 4,706 commercial banks in the country.[2] The unconcentrated banking sector in the US does provide Americans with options when it comes to banking, but it also can cause instability like we are seeing now.

In Canada failure is less likely to occur because of our stricter regulations and well-capitalized banks. We also feel it is important to note the protection Canadians have through the Canadian Deposit Insurance Corporation (CDIC) and the Canadian Investor Protection Fund (CIPF). The CDIC protects deposits held at each member institution up to a maximum of $100,000 per separately insured category. The coverage is free and automatic, so if there was ever a failure, deposits are automatically protected.[3] The CIPF relates to the investment accounts you hold with National Bank Financial. CIPF covers up to $1 million dollars each for your non-registered accounts combined and registered accounts combined.[4] The securities, such as stocks and bonds, you hold in your investment accounts are yours and NBF holds the positions on your behalf. Because of this, they are required to return them to you if requested. CIPF provides coverage for investments not returned in the event of a firm's insolvency.

The situations like what we are experiencing right now further emphasis the need to look for quality in your investments. When screening for US and Canadian stocks for our models, we focus on companies with strong fundamentals. Items like earnings growth and strong cashflows are just some of the factors that we like to look for. It is easy to get swept up in the news of what the next big sector will be for investment, but it is important to still make sure the company is solvent and has the ability to continue as a going concern.

1 Why Did Silicon Valley Bank (SVB) Fail? (forbes.com)

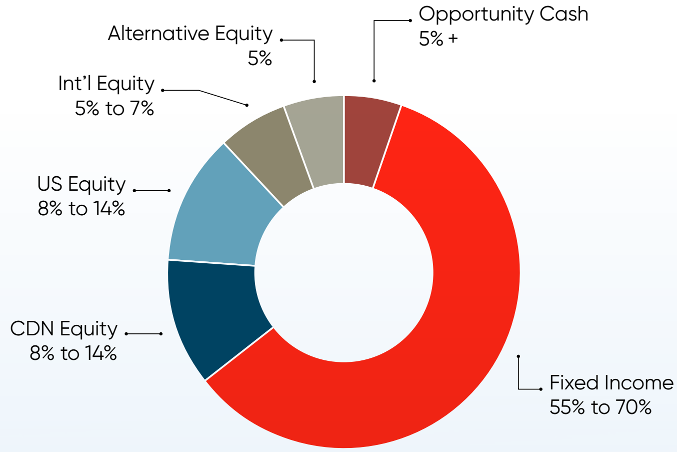
2 US Consumers Have So Many Banks to Choose From But That's a Cause of Instability - Bloomberg

3 Your coverage - cdic.ca

4 About CIPF Coverage

Conservative Income Investment Goal Allocation

Your Investment Policy **CONSERVATIVE INCOME:** On the whole, you want fixed income investments. You want to preserve your capital or create a source of periodic income to finance ongoing expenses. You are not against the idea of investing a small part of your portfolio in equities, mainly to counteract the effects of inflation. If you feel that your risk tolerance has shifted please let us know!



Source: This information is for illustration purposes and subject to change. Your portfolio may not hold all of these positions. We enhance the composition of your portfolio with additional equity solutions that are not illustrated. The weightings change with market fluctuations and model rebalancing.

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