MARKET UPDATE

Spring 2023

Over the past two weeks, global banks have come under material stress. On March 10, federal regulators shut down Silicon Valley Bank, the 16th largest bank in the country. Two days later, Signature Bank of New York was taken into receivership by the Federal Deposit Insurance Corporation (FDIC). The following week led to substantial volatility in the stock prices of a number of banks, particularly First Republic and Credit Suisse, which UBS acquired over the weekend. The flurry of activity in a short period of time has concerned both investors and depositors about the risk of contagion among financial institutions. As well, investors are now concerned about the viability of smaller banks and depositors are concerned about the safety of cash deposited in these banks in excess of the $250,000 FDIC insured limit. With new information being released daily on banks, we wanted to offer our thoughts on the overall situation.

U.S. regulators announced a plan to fully insure all deposits at both Silicon Valley Bank and Signature Bank of New York in an effort to mitigate the damage of bank failure. Traditionally, bank deposits are insured to a limit of $250,000 per depositor, per bank. In the event of a bank failure, depositors with greater than $250,000 receive no assurance of return of capital in excess of the insured limit. In this case, the FDIC deemed these two banks as "systemic risks" to the financial system. This designation allowed the agency to take uncommon action to minimize stress on the overall banking system by fully insuring all of those two banks' deposits. The US regulators decision to fully insure all of the banks' deposits in excess of $250,000 had the unattended consequence of putting substantial pressure on regional and smaller banks whose depositors had no such protection. Logically, individuals and corporations with deposits in excess of $250,000 at smaller banks started to move money out the smaller banks into the large national banks which have been labeled systematically important financial institutions or "too big to fail." In fact, one such bank, Bank of America, gained new deposits of over $15 billion within days of the failure of Silicon Valley Bank. With the FDIC fully insuring all of the deposits at the

failed banks, depositors assumed that their funds at the largest systematically important banks such as JP Morgan, Bank of America, Wells Fargo, and Citicorp would be fully insured and this created a run on smaller regional banks.

At the Senate Finance Committee meeting last week with Treasury Secretary Janet Yellen, the concern arose that these actions essentially would create two tiers of US Banks. Senator Lankford of Oklahoma (Oklahoma has the seventh most community banks in the U.S.) asked Secretary Yellen about the breadth of the uninsured deposit backstops and how they would apply across the banking industry. Secretary Yellen's response to the Senator's question was that the uninsured deposits would only be covered in the event that a "failure to protect uninsured depositors would create systemic risk and significant economic and financial consequences." Specifically, the message was that smaller regional banks may potentially be left to fail because they would not be deemed a "systemic" risk to the U.S. financial system. Those comments reinforced depositor thinking that there is little incentive for them to keep money in a local bank versus a large national bank already deemed "too big to fail."

As a result, a coalition of 110 midsize banks from across all 50 states have asked regulators to fully insure all deposits for the next two years. In New England, this coalition includes Rockland Trust, Eastern Bank, and Berkshire Bank. Our hope is that FDIC assistance will be offered to these local banks, which are vitally important to the communities they serve and operate in. We believe the actions by regulators over the past two weeks has created tiers in the banking system and depositors are simply reacting reasonably to market conditions to ensure the safety of their deposits. As a result, it will be important for the government to assist local banks swiftly to restore customer confidence and prevent more capital outflow from these small regional banks to the larger national banks.

In full disclosure, WhaleRock has no banking relationship with the banks that have come under substantial strain: Silicon Valley Bank, Signature Bank of New York, Credit Suisse, or First Republic. In addition, we have no direct investments in any of the aforementioned companies. The only modest exposure to these banks you may have would be through exchange-traded funds (ETFs) or mutual funds. For example, First Republic Bank, a member of the S&P 500, is owned in any passive ETF/mutual fund with a mandate to track the S&P 500. That said, First Republic's weighting in the

S&P 500 is 0.01%, i.e. should you own $1,000,000 of a passive S&P 500 ETF/mutual fund investment, you would own $100 worth of First Republic stock, a de minimis exposure.

Should you want to discuss this further or have questions, please feel free to call us: 401.228.7799.

Per the SEC's annual requirement, WhaleRock has updated our ADV to reflect any changes that occurred in 2022. The disclosure can be found on our website, www.wrpoint.com/disclosures.