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Commerce Concepts

Market Updates, Asset Allocation, and Investment Education for Plan Participants and Individuals

Bank Failures Shine Light on Interest Rate Risks

Financial markets reacted turbulently to the collapse of Silicon Valley Bank (SVB) on March 10, 2023, followed two days later by the failure of Signature Bank of New York. With $209 billion in assets and $175 billion in deposits, SVB was the nation's 16th largest bank and the second largest to fail in U.S. history.

To help restore confidence in the U.S. financial system, the federal government pledged to make all depositors whole and to support other banks that might face liquidity issues stemming from the rapid rise in interest rates.

What is the FDIC?

The Federal Deposit Insurance Corporation (FDIC) is an independent agency backed by the full faith and credit of the U.S. government. FDIC insurance is intended to reassure depositors and offer protection in case an insured bank becomes insolvent, is liquidated, or experiences other financial difficulties. Most banks in the United States are insured by the FDIC, which protects deposits up to $250,000 per person, bank, and account category. When a member bank fails, the FDIC issues payments to depositors (typically up to the limits provided by law) and takes over the administration of the bank's assets and liabilities.

What happened and why are banks under pressure?

In its quest to bring down inflation, the Federal Reserve has raised the benchmark federal funds rate from near zero to more than 4.5% over the past year. Banks earn money by investing customer deposits, often in relatively safe long-term Treasuries and other government-backed bonds. As interest rates rise, bonds lose value on the secondary market, which becomes a problem if banks must sell bonds before they mature.

A California bank that catered to technology start-ups, SVB was highly exposed to weakness in that volatile sector. As start-up valuations fell and venture capital funds dwindled, withdrawals increased and forced the bank to sell $21 billion in securities at a $1.8 billion loss. More than 90% of customer deposits at SVB were uninsured (due to exceeding the $250,000 FDIC cap), which made depositors more likely to panic and pull their money once the bank's losses came to light, compounding the problem.

Signature Bank, which was a primary servicer of high-risk cryptocurrency businesses, faced similar challenges.

What actions did the government take?

In a joint statement, the U.S. Treasury, the Federal Reserve, and the FDIC guaranteed that depositors of SVB and Signature Bank would have access to all their money. Concluding that the failures posed a risk to the financial system gave the FDIC greater flexibility to return funds in excess of the usual $250,000 insurance cap.

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WIN A $25 GIFT CARD

to your choice of REI or Powell's! (See page 2 for details)

Congratulations to our most recent winner:

Sharon N. of Evergreen Efficiency

*Visit **thecommco.com/commerce-concepts** for the answer to last issue's question.*

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Indexes are unmanaged and cannot be invested in directly. Past results are not predictive of future results. Individual results will vary. The trailing returns shown include dividends. See page four for index definitions.

*Source:
Raymond James Financial Services*

To be entered into a drawing to win a

$25 Gift Card,

email free@thecommco.com with the answer to this question:

What is the typical cap on FDIC insurance (per bank, ownership, and account category)?

Market Update

Through March 31, 2023

		Trailing Returns			
		3 mos	12 mos	5 yrs	10 yrs
Blue Chip US Stocks	Dow Jones Industrial Average	0.93%	-1.98%	9.01%	11.15%
Large Company US Stocks	S&P 500	7.50%	-7.73%	11.19%	12.24%
Small Company US Stocks	Russell 2000	2.74%	-11.61%	4.71%	8.04%
Non-US Stocks	MSCI EAFE (Gross Div)	8.62%	-0.86%	4.03%	5.50%
US Bonds	Bloomberg US Aggregate	2.96%	-4.78%	0.90%	1.36%
Cash Alternatives	ICE B of A 3 Month US Tsy Bill	1.07%	2.50%	1.41%	0.87%

Economic Snapshot

Gross Domestic Product (GDP)
GDP growth is expected to continue to moderate over the next several quarters, and we expect a recession to start in 3Q23.

Employment
Nonfarm payrolls have remained strong during the first months of the year, with other labor market indicators also showing a still tight labor market.

Monetary Policy
The Fed has likely one more hike to go this year, which will bring the terminal rate to 5.25%. Contrary to the market, we believe that the Fed will hold rates steady at restrictive levels for the remainder of 2023.

Inflation
Inflation should continue to slow as economic activity continues to weaken. Shelter costs should help the disinflationary process starting in the second half of 2023.

Housing and Construction
Although some sectors of the housing market have stabilized, the sector is likely to remain weak in the coming quarters as interest rates and affordability reduces the pool of potential buyers.

Manufacturing
Manufacturing production has been weakening for some time, and this weakness is expected to continue.

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March Market Review

- The failure of Silicon Valley Bank in mid-March stoked concerns of panic-induced bank runs, but quick action by federal authorities and industry actors helped contain those fears. Meanwhile, as if to ease tensions by neither causing alarm with a sudden change of tack nor seeming indifferent to unfolding events, the Fed continued its program of raising interest rates, though by only one quarter of a percent this time.
- Overseas, Swiss authorities quickly dealt with a banking crisis of their own with the long-troubled Credit Suisse, ultimately folding the globally important bank into UBS and supporting a smooth transition that protected the bank's depositors.
- The banking crisis on both sides of the Atlantic caused turmoil in the bond markets. In the U.S., that churn settled by the end of the month, suggesting confidence in the result. The long-term impact of these events is yet to be seen. Short term, it's possible lending will tighten. This would, in effect, support the Fed's inflation-fighting strategy by slowing the economy, which could have an impact on its decision to raise rates further or pause.

For additional asset allocation and disclosure information, please click here or visit the Resources section of our website at

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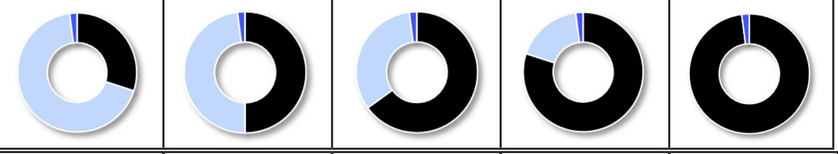
The investment profile is hypothetical, and the asset allocations are presented only as examples and are not intended as investment advice. Asset allocation and diversification do not assure a profit or protect against loss. Investing involves risk and investors may incur a profit or a loss, including the loss of all principal. International investing involves special risks, including currency fluctuations, differing financial accounting standards, and possible political and economic volatility. Investing in small- and mid-cap stocks generally involves greater risks, and therefore may not be appropriate for every investor. There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices generally rise. High-yield bonds are not suitable for all investors. When appropriate, these bonds should only comprise a modest portion of your portfolio. Commodities and currencies are generally considered speculative because of the significant potential for investment loss. They are volatile investments and should only form a small part of a diversified portfolio. Real estate investments can be subject to different and greater risks than more diversified investments. Declines in the value of real estate, economic conditions, property taxes, tax laws and interest rates all present potential risks to real estate investments.

Strategic Asset Allocation Models

As of April 2023

Equities
Fixed Income
Cash Alternatives



	Conservative	Moderate	Balanced	Growth	Aggressive
Equity	**30%**	**50%**	**65%**	**80%**	**98%**
Equity allocation comprises:					
U.S. Large Cap Blend	20%	24%	29%	35%	45%
U.S. Large Cap Growth	0%	3%	5%	7%	8%
U.S. Large Cap Value	0%	3%	5%	7%	8%
U.S. Mid Cap Equity	4%	7%	9%	11%	13%
U.S. Small Cap Equity	1%	3%	5%	7%	8%
Non-U.S. Developed Market Equity	5%	10%	8%	9%	11%
Non-U.S. Emerging Market Equity	0%	0%	4%	4%	5%
Fixed Income	**68%**	**48%**	**33%**	**18%**	**0%**
Fixed income allocation comprises:					
Investment Grade Intermediate Maturity	58%	39%	29%	18%	0%
Investment Grade Short Maturity	0%	0%	0%	0%	0%
Non-Investment Grade (High Yield)	7%	6%	4%	0%	0%
Non-U.S. Fixed Income	3%	3%	0%	0%	0%
Multi-Sector Fixed Income	0%	0%	0%	0%	0%
Alternative Investments	**0%**	**0%**	**0%**	**0%**	**0%**
Cash & Cash Alternatives	**2%**	**2%**	**2%**	**2%**	**2%**
Totals	**100%**	**100%**	**100%**	**100%**	**100%**

These asset allocation targets are based on our changing views of the risk and return in the various asset classes, looking out over three or more years. The models assume fully allocated portfolios and do not take into account outside assets, additional cash reserves held independent of these models, or any actual investor's unique circumstances. Investors should consult their financial advisor to decide how these models might assist in the development of their individual portfolios. Material is provided for informational purposes only and does not constitute a recommendation.

Index definitions: The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. The Dow Jones Industrial Average (DJIA), commonly known as "The Dow" is an index representing 30 stock of companies maintained and reviewed by the editors of the Wall Street Journal. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index. The MSCI EAFE (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations. The Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The ICE BofAML 3-Month US Treasury Bill index consists of a single issue that is purchased at the beginning of the month and held for a full month. At month's end, that issue is sold and rolled into a newly selected issue, which is the outstanding Treasury Bill that matures closest to, but not beyond, three months from the rebalancing date. The selected issue must have settled on or before the month-end rebalancing date. Past performance may not be indicative of future results. An investment cannot be made in these indexes. The performance mentioned does not include fees and charges, which would reduce an investor's returns.

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Any resulting FDIC insurance fund losses will be recovered through a special assessment charged to banks. The banks' shareholders and unsecured bondholders did not receive any government support.

In addition, the Federal Reserve will help ensure that all banks have enough liquidity to meet depositors' needs — without selling bonds prematurely — through a new facility called the Bank Term Funding Program (BTFP). The BTFP allows banks to use their government bonds as collateral for one-year loans.

How will other banks be affected?

Moody's Investors Service cut its outlook for the entire banking sector from stable to negative, due to the "rapidly deteriorating operating environment." Lower credit ratings could push up borrowing costs and cut into earnings. Regulators emphasized that the U.S. financial system remains resilient and has a solid foundation, in part due to safeguards put in place during the last financial crisis. The Federal Reserve launched an internal review to determine what went wrong and whether regulators missed signs of trouble. This may cause officials to refocus attention on smaller institutions and strengthen those regulatory requirements accordingly.

Are your savings protected?

If you have less than $250,000 on deposit at any one bank, yes. If you have more than that, you may want to increase your protection by either spreading your money around to multiple financial institutions or taking advantage of the way coverage is extended to different ownership categories (individual accounts, joint accounts, retirement accounts, trust accounts, and business accounts, among others). For example, a married couple could expand their total coverage up to $1 million at one bank by opening two separate individual accounts in addition to a joint account. You can't increase your coverage by owning different product types (a checking account, savings account, or CDs, for example) within the same ownership category.