Legacy Trust

Investment Perspectives

Update on Silicon Valley Bank Collapse and Market Implications

March 13, 2023

Financial markets have been in turmoil since late last week when problems emerged with Silicon Valley Bank (SVB), the 16th largest bank in the United States with significant exposure to America's start-up economy. On Friday the Federal Deposit Insurance Corporation (FDIC) took control of the bank, making the collapse of SVB the largest bank failure since the global financial crisis in 2008. We wanted to take this opportunity to highlight key facts around these events and address concerns that may be on investors' minds.

- First and most important, a reminder that **Legacy Trust is not a traditional depository and lending bank. Our clients' accounts are not leveraged, nor are they considered assets on Legacy Trust's corporate balance sheet** (both of which were the case with SVB). Assets in our clients' accounts are registered directly in their names and are not lent out nor commingled. **Legacy's business results bear no impact on our clients' ability to access their individual accounts.** Like all investment accounts, they are not subject to FDIC insurance because they are not simple depository accounts, but FDIC protection isn't necessary in this situation given the separation between the advisory organization (Legacy) and the underlying custodial accounts (registered directly in the client name).

- **SVB's financial position appears to be unique and not necessarily the sign of a systemic problem.** The bank had a significantly riskier portfolio than the average bank due to its focus on venture businesses in Silicon Valley, and further, they had far lower traditional retail deposits (which typically are more stable and are within the FDIC insurance limits) than typical. They were particularly susceptible from negative effects on their financials due to rapidly rising interest rates and failed to hedge or manage this risk appropriately. **We do not believe this set of circumstances applies to most banks.**

- **We believe it is in the best interest of the U.S. economy for the Fed to step in and support depositors of SVB as they have done,** while still allowing the bank's equity holders and management to fail. The Silicon Valley venture ecosystem is important for U.S. innovation and advancement. Further, it is critical for American small businesses and consumers across the country to be able to trust in the integrity of their bank deposits.

- While emotions are running high this morning and volatility is rampant, **remember that less than a week ago, the prevailing market narrative was that of a stubbornly strong post-pandemic economic expansion that was driving the Fed toward aggressive rate hikes to keep activity and inflation in check**. The narrative now seems to have shifted rapidly into one of impending economic doom based on a fairly specific set of circumstances for one company. **We believe the wisest path of action is to stay the course and wait to see how events play out for now.** The factors that were contributing to economic expansion before the weekend (including persistent and solid consumer demand as well as record low unemployment) are still important considerations for investors. We will remain vigilant and are prepared to adjust investment positioning and take advantage of opportunities as events continue to play out.

We will continue to share our thoughts with you as things unfold. Please don't hesitate to reach out to the Legacy Trust team with any questions or concerns.

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