



[TACTICAL] The unexpected stock market drop has suspended any positive momentum in Sowell's tactical signals in a neutral position (60/40). The technical signals will pay close attention to this week's inflation report and the market sentiment ahead.

What was initially viewed as this week's market overreaction to Chair Powell's congressional testimony on monetary policy was replaced by the left-field pandemonium from the collapse and FDIC seizure of Silicon Valley Bank. Although the S&P 500 sustained a major loss of 4.53% in a short period of a week, Financial stocks were shaken and dropped 8.17% by the news of Silicon Valley Bank's fall, dropping 63% before the stock was halted from trading. Due to contagion fears, regional banks measured by KRE (SPDR S&P Regional Bank ETF) sank 16.05% in a week.

In reaction to recession fears and the Fed tightening monetary policy, the bond market had the opposite reaction as yields narrowed and gained 1.2% while long Treasuries gained 3.6% during the week.

It is a modest week ahead for earnings releases. As the fallout from Silicon Valley Bank continues to unfold this week, the market will tread on understanding the widespread impact to the bank's corporate customers and many tech start-ups. Sentiment will initially focus on the CPI and Industrial Production report being released this week, but angst will likely center around the banking sector and liquidity fears until the U.S. Treasury Department

reassures the market as they determine bailout options. On Sunday, Treasury, Federal Reserve, and FDIC issued a joint statement that the U.S. Government would protect all SVB's deposits to assure the global market's confidence in the U.S. banking system. However, special mention was made to shareholders and debtholders they will not be protected.

"That said, there is little sign of disinflation thus far in the category of core services, excluding housing, which accounts for more than half of core consumer expenditures. To restore price stability, we will need to see lower inflation in this sector, and there will very likely be some softening in labor market conditions....We are seeing the effects of our policy actions on demand in the most interest-sensitive sectors of the economy. It will take time, however, for the full effects of monetary restraint to be realized, especially on inflation. In light of the cumulative tightening of monetary policy and the lags with which monetary policy affects economic activity and inflation, the Committee slowed the pace of interest rate increases over its past two meetings. We will continue to make our decisions meeting by meeting, taking into account the totality of incoming data and their implications for the outlook for economic activity and inflation." – Chair Jerome H. Powell, Before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, Washington, D.C., March 8, 2023.

Silicon Valley Bank Financial Snapshot								
(in millions)	2015	2016	2017	2018	2019	2020	2021	2022
Assets:								
Total Investments	26,164	21,933	24,876	24,629	30,214	51,902	128,643	120,606
Total Loans	16,524	19,674	22,851	28,057	32,859	44,733	65,854	73,614
Liabilities:								
Total Deposits	39,142	38,980	44,254	49,329	61,757	101,981	189,203	173,109
Statistics:								
Total Investments YoY Change %		-16%	13%	-1%	23%	72%	148%	-6%
Total Loans YoY Change %		19%	16%	23%	17%	36%	47%	12%
Total Deposits YoY Change %		0%	14%	11%	25%	65%	86%	-9%
Total Investments/Total Deposits	67%	56%	56%	50%	49%	51%	68%	70%
Total Loans/Total Deposits	42%	50%	52%	57%	53%	44%	35%	43%

Source: Bloomberg

Silicon Valley Bank meet B&L in Bedford Falls

Silicon Valley Bank's sudden takeover by the regulators brings memories of 2008, but this collapse is more like "It's A Wonderful Life's" B&L potential demise. Jimmy Stewart portrays character George Bailey who thwarts the run on the bank that might have been. However, today, tragically, SIVB could not avert the "run on the bank," and unlike in Bedford, we're left wondering why things aren't so Wonderful.

There are parallels, though, that we see in the fictional Bedford that seemed to have played out in the real Silicon Valley. And we're already hearing questions about how this collapse of SIVB will affect the tech and start-up community in Silicon Valley. In Bedford, there were only two financial institutions, "the bank" and George and Harry's Building and Loan (B&L). The key to the story and the beauty of Capra's story is the people, and key in the story, outside of George Bailey, is the depositors and the borrowers or homeowners.

It is true for Silicon Valley, too, though talking heads on superficial cable channels will say otherwise as they make dire comparisons to 2008. 2008 was not about depositors but the investments and assets that banks and bank borrowers bought with leverage that was suddenly no more. Both cases highlight the concentration of depositors in both Bedford and now Silicon Valley. Are there only two banks in Silicon Valley? Of course not, but clearly, we need to understand why the close-knit network and Twitter-induced fear were so concentrated among depositor clients of SIVB.

Much like the homes of Bedford that B&L loaned money to purchase, there will surely be unequivocal evidence that SIVB's investments were sound despite some short-term losses on the Treasury Bond holdings caused by the forced liquidation of the inflation-reduced bonds. In this case, we might even be able to point to inflation's first victim. Perusing the bank's balance sheet highlights atypical growth in deposits and investments between 2019 and 2021 that will likely be investigated further by regulators.

In "It's a Wonderful Life," the Uncle Billy character sets all the events in motion as he absent-mindedly loses the \$8,000 deposit money. We also find out that Potter, the antagonist, doesn't mind stealing the money or doing a number of unethical things to get ahead—very much the opposite of the kind-hearted George Bailey. We feel awful for Uncle Billy, but it's not like we trust him to put himself on the line to rectify things. This is the same for Silicon Valley Bank, the "Uncle Billy" or Billys that crafted the last couple of days of announcements and actions by SIVB didn't know that this would induce a run on the bank and crash the bank. Many other bank executives probably genuinely feel bad for SIVB and are trying to understand what happened. They may even be thanking their lucky stars that it wasn't them or their banks. Be assured every bank board is scrambling now to get a full report on whatever and whenever. However, these bankers still can't help their inner "Potter" feeling that they have an advantage to have the George Bailey of banks go under. Stay tuned. We'll uncover some more "Potters" in this story.

This gets us to our assessment. This is a "run on the bank" that should never have happened, and there is plenty of blame to go around, mostly at Silicon Valley Bank, obviously... poor Uncle Billy. But this is the drama, induced by fiction and a little

MON MARCH 13, 2023
CB Employment Trends
Amylix Pharmaceuticals, Getty Images, and GitLab earnings
TUE MARCH 14, 2023
CPI and Core CPI Index
Real Earnings
NFIB Small Business Optimism Index
Lennar earnings
WED MARCH 15, 2023
PPI and Core PPI Index
Retail Sales
Business Inventories
Adobe, Five Below, and William-Sonoma earnings
THU MARCH 16, 2023
Initial jobless claims (weekly)
Continuing jobless claims
Housing Starts
Dollar General, FedEx, and Jabil earnings
FRI MARCH 17, 2023
Industrial Production
UMich Consumer Sentiment
Euro Zone CPI and Core CPI Index

SELECT INDICES							
SECTORS (AS OF 3/10/23)	YTD Daily	1 Wk Daily	MTD (Daily)	3 Mo Daily	1 Yr Daily	2 Yr Daily	3 Yr Daily
S&P 500 Index	0.92	(4.51)	(2.67)	(1.42)	(7.79)	1.08	12.04
S&P 500 Growth Index (as of 3/9/23)	3.02	(0.84)	(0.54)	(0.88)	(14.40)	(1.62)	13.03
S&P 500 Value Index (as of 3/9/23)	1.73	(2.30)	(2.01)	0.89	0.83	5.44	14.42
NASDAQ Composite	6.63	(4.68)	(2.72)	1.46	(14.40)	(6.96)	10.98
Bloomberg US Agg Bond	1.45	1.17	1.04	0.10	(7.35)	(5.44)	(3.66)
Bloomberg Long Term US Treasury	5.19	3.59	3.78	0.16	(18.43)	(10.75)	(11.75)
Basic Materials	1.77	(8.16)	(4.85)	(1.65)	(2.34)	3.74	20.40
Communications Services (as of 3/9/23)	8.57	(0.87)	(0.31)	5.37	(23.59)	(16.50)	2.38
Consumer Cyclical	7.38	(5.72)	(5.08)	0.05	(15.89)	(8.97)	12.18
Consumer Defensive	(3.73)	(2.40)	(1.68)	(4.77)	0.01	6.05	9.84
Energy (as of 3/9/23)	(4.45)	(3.08)	(0.23)	1.68	15.73	32.54	42.71
Financial Services	(2.71)	(8.17)	(7.43)	(3.29)	(7.02)	(2.70)	11.54
Healthcare	(8.25)	(4.33)	(2.67)	(9.17)	(4.35)	2.66	9.83
Industrials	1.73	(4.86)	(2.36)	0.87	1.55	2.48	14.25
Real Estate	(2.53)	(7.07)	(5.75)	(4.99)	(19.12)	(1.46)	0.54
Technology	9.87	(3.82)	(1.32)	4.57	(9.69)	1.09	16.59

Twitter, as fears around the viability of SIVB exploded in a "two-bank" town. It's not 2008, and the massive majority, if not all the banks are de-risked from 2008 with huge reserves. Their loans and investments are well underwritten and regulated, and it's a rarity that a bank defaults like SIVB. Does it happen? Yes! Even most recently, in 2020, but a "run on a bank" is rare, even in Hollywood.