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Your Copperwynd Financial Newsletter: April 2023

Market Commentary

Whirlwind of Events

By Jake Eggett

The month of March produced a whirlwind that left a trail of destruction among several regional banks and will likely impact markets for the foreseeable future. The cause of the whirlwind – a "run on the bank" with depositors attempting to withdraw an astounding $142 billion or ~80% of assets from Silicon Valley Bank (SVB) in just 2 days. After withdrawal requests exceeded SVB's available liquidity, regulators stepped in and shut down the bank down while also guaranteeing all deposits (even those over the FDIC limit of 250k/per account holder). A few days later, Signature Bank experienced the same demise. Silicon Valley Bank and Signature Bank became the 2nd and 3rd largest bank failure in U.S. history only behind Washington Mutual in 2008.

Why the panic?

A classic "run on the bank" is usually due to the bank making bad loans and investors losing confidence in the solvency of the bank. However, in this case, the issues were multi-faceted with Silicon Valley and Signature Bank both having a very high percentage of uninsured deposits (greater than the FDIC limit of 250k) and a large percentage of their reserve assets in long

maturity government guaranteed bonds with no credit risk but exposing themselves to substantial interest rate risk. With the Fed raising rates quickly to tame inflation, the higher rates caused the bank's reserve assets in bonds to drop in value. Normally the banks would hold these bonds to maturity and get their money back but when everyone started asking for their deposits back at the same time, they had to sell those bonds early, which resulted in substantial losses for the bank and created the ensuing panic. This mismatch of buying longer dated bonds without hedging their portfolio calls into question the bank's risk management procedures and likely will result in additional regulation in the banking industry.

The True Indicator of Banking Stress

Fears over these bank failures have naturally spread to other regional banks. Determining whether the regional bank crisis is over is the most important near-term issue for markets right now. And while analysts in the financial media often give opposite opinions, luckily, we can look at the data that tells us whether the crisis is getting worse or better.

There are currently two loan programs from the Fed that are specifically designed to help regional banks that are experiencing liquidity issues:

The first is the Fed discount window, where banks can pledge U.S. Treasuries to access liquidity. It's been around for a long time, although it's likely very few people have paid attention to it since the beginning of the financial crisis (when all of us were paying attention to it!).
The second program is new, the Bank Term Funding Program, which the Fed just created to alleviate the liquidity issues that brought down Silicon Valley and Signature Bank.

Think of these two programs as "bridge loans" the Fed extends to banks who need cash. These are not facilities that banks use regularly, and just like a company (or person) needs a bridge loan to "stay afloat," there's stigma in the banking industry attached to using these facilities. Put simply, if a bank is using them, it's a sign they are in trouble, which can make the problem substantially worse.

Here's why this is relevant:

The usage amounts of these two facilities are updated every Thursday after the close. We literally can see how many banks are using both the discount window and the BTFP, and just like any emergency loan program, the higher the usage, the worse the problem!

Figure 1:

U.S. Banking System Stress Monitor	3/10/2023	3/17/2023	3/24/2023	3/31/2023
Weekly Change ($Billions)				
Fed Bank Facilities				
Discount Window	0.2	148.3	(42.6)	(22.1)
Other Credit (Bridge Banks)	0.0	142.8	37.0	0.3
PPP Credit Facility	(0.1)	(0.1)	(0.1)	(0.5)
Bank Term Funding Program	0.0	11.9	41.7	10.7
Total Fed Bank Support Facilities	**0.1**	**302.9**	**36.0**	**(11.5)**

Weekly Change In Fed Bank Support Facilities GLENVIEW TRUST, BLOOMBERG

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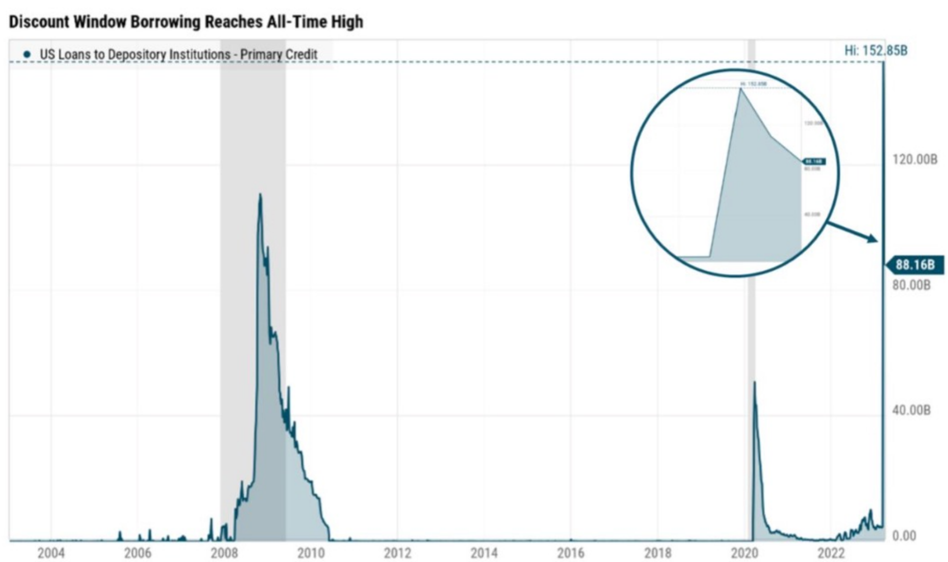
Figure 1 shows the weekly change in the use of the Fed Bank Facilities over the last 4 weeks.

- As you can see, the usage of the Fed's discount window spiked $148 billion during the week ending March 17th. The borrowing from the discount window went from about $4 billion (prior to the crisis), up to $152 billion total and has declined over the last 2 weeks down to $88 billion. Part of the reduction in discount window usage was likely a shift to borrowing from the BTFP.

- Since the creation of the BTFP, use has surged from $0 (because it didn't exist) to $64 billion in total borrowing from the new program. One observation to note is that even though the borrowing increased by $10.7 billion last week from the BTFP, the overall borrowing from the Fed decreased by $11.5 billion showing that banking stress eased from the week prior.

So, between the two programs the Fed has had to lend more than $150 billion in quasi-emergency loans to banks since the beginning of March. As the chart below shows, that dwarfs what was needed during the pandemic, and equals what was needed during the financial crisis!

Figure 2:



Source: YCharts, Federal Reserve, data from 01/15/2003 – 03/29/2023

Now, that does not mean that stocks are going to automatically fall based on this data.

These Fed "bridge loans" are designed to prevent bank runs, and so far, they are working. As we've explained, this is more of a liquidity issue than a credit issue and fundamentally banks are in good shape with cleaner loans and high capital ratios. In summary, the decline in Fed bank lending bodes well that the rapid spread of the banking crisis has been alleviated; however, we'll be watching this closely each week to monitor the stress in the banking system.

If you missed the latest Dave's Talk video around banking concerns, you can find it through this link: https://youtu.be/hDHHPQ214lQ

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Market Performance

The month of March showed mix results with US Mid-cap and Small-cap equities declining due to the banking sector concerns while US Large Cap rebounded nicely the last few weeks to finish positive. The Nasdaq, which badly underperformed in 2022, handily outperformed the first quarter with very impressive returns. That outperformance was driven by a decline in bond yields (which makes growth-oriented tech more attractive to investors) and mega-cap companies were viewed as “safe havens” amidst the late-quarter banking stress. Internationally, foreign developed markets largely traded in line with the US markets and ended the month in positive territory and outpacing the S&P500 for the quarter.

Switching to fixed income, bonds ended the month and the quarter in positive territory, but it was not without stock-like volatility. Given that the banking concerns raised the odds of a recession and market anticipating the Fed is near an end to their rate hikes, this generated a sharp drop in rates and fueled a broad bond market rally to close out the first quarter.

Equities	March	YTD 2023
S&P 500	3.71%	7.46%
Mid Cap	-3.15%	3.83%
Small Cap	-4.85%	2.70%
Nasdaq	9.49%	20.71%
International Developed	3.13%	8.96%
Emerging Markets	2.56%	3.72%

Fixed Income	March	YTD 2023
Bloomberg Aggregate Bond Index	2.64%	3.23%
High Yield Corporates	2.14%	4.24%

Source: YCharts, 2/28/2022-3/31/2023, Total Return Data using SPY, IJH, IWM, QQQ, EFA, VWO, AGG, and JNK. YTD returns as of 3/31/2023.

The Bottom Line

Both stocks and bonds rallied the first quarter of the year, but significant uncertainty remains due to rising interest rates, high inflation, a slowing economy, and weakness in the banking system.

The Federal Reserve appears to be nearing the end of its rate-raising cycle with investors expecting just one or two .25% hikes before a pause or even a drop in rates. Will they be correct? Every single rally in stocks since this bear market began has been driven by the hope from markets that a Fed pivot or pause is imminent, and it was that way again over the past month. The rise in interest rates has begun to have the desired effect of decreasing inflationary pressures but has also created cracks in the system. If and when a recession comes is unknown, but volatility is not likely to exit the market any time soon. Navigating these environments can be challenging, but we believe a disciplined, tactical approach makes sense in this environment as part of a portfolio’s overall asset allocation plan.

We continue to remain defensively positioned in our overall equity allocation; although, we recently deployed some of the cash to increase our market exposure. In our Total Return bond

strategy, the volatility from the banking stress pushed us out of some our positions a few weeks ago; however, we recently just added exposure to high yield bonds and high yield municipals while maintaining our exposure to treasuries that are yielding more than 4%.

As always, if you are concerned about your risk level, please reach out to us, and schedule a time to review your allocation and financial plan.

Upcoming Events

Schwab Transition
You may remember back in 2020 Charles Schwab & Co., Inc. bought TD Ameritrade. In 2023, Schwab and TD Ameritrade will become one company solely under the Schwab brand. Your relationship with Copperwynd Financial will not change. Schwab will automatically transfer your assets and holdings over Labor Day weekend 2023.

In preparation for this change, you must have access to all your accounts online at TD Ameritrade using the portal www.advisorclient.com. Using your existing login ID and password will help ensure a smooth transition to the Schwab platform. This is the first critical step to take if you haven’t done so already.

If you have any questions, please do not hesitate to contact our office at 480-348-2100.

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Why FDIC and SIPC Insurance Matters

By: Corrina Olson

Since Silicon Valley Bank (SVB) hit headlines last month, you have probably seen a lot about both FDIC and SIPC insurance. What are the differences between them? And what do they protect? Federal Deposit Insurance Corporation (FDIC) insurance and Securities Investor Protection Corporation (SIPC) offer two different types of coverage that help protect your assets. FDIC insurance and SIPC coverage protect bank and brokerage firm customers, respectively, against the risk of failing financial institutions. It’s important to note that they do not protect customers against market losses. Individual assets may be covered under either SIPC or FDIC, but not both. These types of insurance operate very differently. Let's take a look at how they protect you.

What is FDIC insurance?
The Federal Deposit Insurance Corporation (FDIC) is a federal agency that protects customers against the loss of deposit accounts (such as checking and savings) in FDIC-insured banks. Here are some important facts to know about FDIC insurance:

- The basic FDIC insurance limit is currently $250,000 per account holder per insured bank for deposit accounts and $250,000 for certain retirement accounts deposited at an insured bank. These insurance limits include both principal and accrued interest.
- The FDIC does not insure money invested in stocks, bonds, mutual funds, life insurance policies, annuities, municipal securities, or money market funds, even if these investments were bought from an insured bank.

It's always wise to put your money in an FDIC-insured bank. Whether it's your emergency fund or short-term cash, there's no need to take unnecessary risks.

How is FDIC insurance coverage determined?
The FDIC insurance limit applies to each account holder at each bank. Here is how the FDIC defines coverage for different account holders by some common ownership types:

- Single accounts are deposit accounts (e.g., checking, savings) owned by one person. FDIC insurance covers up to $250,000 per owner for all single accounts at each bank.
- Joint accounts are deposit accounts owned by two or more people. FDIC insurance covers up to $250,000 per owner for all joint accounts at each bank.
- Certain retirement accounts, such as IRAs and self-directed defined contribution plans, are covered by FDIC insurance up to $250,000 for all deposits in such retirement accounts at each bank.

What is SIPC insurance?
The Securities Investor Protection Corporation (SIPC) is a nonprofit membership corporation that was created by federal statute in 1970. Unlike the FDIC, SIPC does not provide blanket coverage. Instead, SIPC protects customers of SIPC-member broker-dealers if the firm fails financially. Coverage is up to $500,000 per customer for all accounts at the same institution, including a maximum of $250,000 for cash. SIPC does not protect investors if the value of their investments falls. When you think about it, this makes sense. After all, market losses are a normal part of the risk of investing.

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Why FDIC and SIPC Insurance Matters

You can do everything right in terms of budgeting and making wise investment choices, but it won't mean much if your financial institution doesn't do their part. Banking with FDIC-insured banks and working with SIPC-insured brokerage firms is a simple way to protect your wealth. It’s important to know the difference between the SIPC and FDIC insurance protection plans. Both cover different elements of your financial life: as discussed above, the SIPC covers certain kinds of securities and investments, while FDIC coverage sticks to deposit accounts. Both can help you recoup losses if your banking partner fails, helping you build peace of mind that you can access the money you may have with a now-insolvent financial institution.

Check out https://edie.fdic.gov/fdic_info.html for more information. If you want to know more about how SIPC and FDIC insurance works, consider giving us a call and speaking to your financial advisor. We will be able to go over your specific accounts and the pros and cons, as well as best practices for maximizing your protection. You’ll walk away with a stronger sense of how your assets are protected in the event of unforeseen circumstances.

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It's Tax Time!

That means that while you are getting your papers in order, fraudsters are waiting on the sideline to take advantage of unsuspecting victims. Scammers love tax time because they know people fear getting into trouble with the IRS. But many fraudsters are using tactics the IRS would never use, making them easy to spot. We are here to make you aware of a few tax scams, so you don't become a victim!

Here are a few of the tax scams to have on your radar:

Text messages:
Ever notice how a text message instantly gets your attention? Scammers know this too, which is why they often send fake messages with links that claim to be valid IRS websites. It's important to know that the IRS doesn't use text messages to discuss individual tax information. Make sure you don't click a link in a text message from an unknown number.

Social media:
Unless you have your privacy settings turned up, your social media accounts are open for fraudsters to send you messages. Just like text messages, they may claim to be from the IRS, which are spoofed accounts, because the IRA will not contact you via social media. Be extremely cautious if you receive tax-related messages via social media platforms.

Phishing emails:
Cybercriminals often send emails that look legit with IRS look-a-like logos that appear official. The tipoff that it's a fraud is the email requesting personal or financial information, which the IRA will not do. Never click on any links or open attachments in unexpected emails and report any suspicious content directly to the IRS.

Phone scams:
It's probably not a shock that the average person receives about 31 spam calls per month. Scammers know when they mention the IRS, people tend to listen because they're fearful they owe taxes or made a mistake on their form. The fraudster may use your name and give a fake employee title to sound official in impersonating an IRS representative. They can even alter caller ID numbers to look more legitimate. The tipoff it's a fake is if the caller tries to threaten or bully you into paying a fraudulent tax bill or asks for immediate cash payment, wire transfers or debit card information by phone. If the IRS needs to contact you, they won't leave a pre-recorded, threatening message. While there are times that the IRS will call, you would likely have received several official letters ahead of the call. If you are getting calls and you think you may owe the IRS, view your balance online or contact the IRS directly to confirm.

Unemployment fraud scams:
This is a different type of scam. It can go undetected for long periods of time. The way it works is that scammers try to use unemployment as a way to make quick cash by filing claims under names and personal information they've obtained fraudulently. Unfortunately, many victims of unemployment fraud don't realize they've been victimized until tax time when they receive specific tax forms detailing unemployment benefits that they never filed for or collected. If you receive a 1099-G form that's incorrect or for benefits you didn't receive, follow the steps outlined on the Department of Labor website to report suspected unemployment fraud.

Tax-related identity theft
Like unemployment fraud, many times, you don't know that you are a victim of identity theft until you file your tax return. You go to file your return only to find out that one has already been filed with the same Social Security number. The IRS recommends taking these steps if you suspect you're a victim of tax-related identity theft.

Tax-related or not, it's crucial that you continually monitor your personal accounts for any suspicious activity. Periodically request and review your credit report, which you can obtain from the credit bureaus for free. If you see accounts you don't recognize on your credit report or spot unfamiliar transactions, you consider taking steps to report and develop a recovery plan for identity theft.

Remember, scammers can be very convincing, and they are good at what they do. Always pause and do your due diligence to confirm the legitimacy of message, request, or website. Remain vigilant of suspicious communications that come to you at all times—especially during tax season. If you still aren't sure, you can always reach out to your financial advisor. We are happy to help review anything suspicious!

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401(k) Allocation

By: Lynda Elley

There are trades.

While the Silicon Valley Bank, et al, created concern and volatility for markets this past month, markets have digested the event, evaluated the response from the Federal Reserve and appear to have decided that the unique nature of some of the failed regional banks should be containable….and rallied back. Thus far, 2023 has repeated much of the 2022 cycle of sell-off – due to whatever concern – and then investors buy the dip. Unlike 2022, we haven't seen the sell-off be quite as dramatic this year. Nonetheless, volatility continues to be problematic for following any trend – and the long-term trend still indicates a recession is on the horizon.
So, all models are back to full risk on – for now. As always, if you find your tolerance for the volatility is higher than comfortable, then either move your allocation down a risk level, or simply stand pat with the allocation you currently have. And feel free to reach out with any questions or if you need help in aligning your 401K.

April 2023		Agg. Growth *100% Equity*	Growth	Moderate	Balanced	Conservative
Bonds / Cash		**0%**	**20%**	**40%**	**50%**	**70%**
	Stable Asset - OR - Short Term Bond	*0%*	*10%*	*30%*	*35%*	*50%*
	Floating Rate Loans					
	Bond Index	*0%*	*10%*	*10%*	*15%*	*20%*
	*High Yield Bonds***	*0%*	*0%*	*0%*	*0%*	*0%*
	Inflation Protected Bonds	*0%*	*0%*	*0%*	*0%*	*0%*
Large Cap:		**60%**	**50%**	**40%**	**30%**	**20%**
	Large Cap Growth	*35%*	*30%*	*25%*	*15%*	*10%*
	Large Cap Value	*25%*	*20%*	*15%*	*15%*	*10%*
Mid Cap:		**20%**	**15%**	**10%**	**10%**	**5%**
	Mid Cap Growth	*10%*	*10%*	*5%*	*5%*	*5%*
	Mid Cap Value	*10%*	*5%*	*5%*	*5%*	*0%*
Small Cap:		**10%**	**5%**	**5%**	**5%**	**0%**
	Small Cap Growth	*5%*	*5%*	*5%*	*5%*	*0%*
	Small Cap Value	*5%*	*0%*	*0%*	*0%*	*0%*
International:		**10%**	**10%**	**5%**	**5%**	**5%**
	Developed International	*10%*	*10%*	*5%*	*5%*	*5%*
	Emerging Markets	*0%*	*0%*	*0%*	*0%*	*0%*
		100.00%	100.00%	100.00%	100.00%	100.00%

** If High Yield Bonds are not an option in your 401k, you can allocate that portion to either your Total Return or Short Term bond fund

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