

Unrest in the banking industry

Vanguard perspective on Silicon Valley Bank and Signature Bank of New York

What happened

The banking industry was put on high alert Friday, March 10, 2023, as regulators halted trading in the shares of SVB Financial Group (ticker: SIVB), the parent company of Silicon Valley Bank (SVB), and closed the bank to protect depositors. On Sunday, March 12, 2023, another bank, Signature Bank of New York (ticker: SBNY), was also shut down by regulators and placed into FDIC receivership.

By way of background, driven by strong deposit growth, SVB had doubled in size in 2021. These deposits were primarily invested by the bank into longer-term U.S. Treasuries and mortgage-backed securities. With interest rates on the rise, the securities in the portfolio fell in value, and SVB was forced to sell some of these fixed income investments at a loss to meet their customers' accelerated withdrawals. The sale of these investments at a loss triggered even more investor withdrawals from SVB, resulting in what the headlines called, *a run on the bank*. As a result, shares of SIVB declined rapidly on Friday and trading was halted.

Regulators moved quickly to fully protect all depositors, both insured and uninsured. Depositors had full access to their money beginning Monday, March 13, 2023.

What was the impact on Vanguard funds?

- The securities, both stocks and bonds, issued by SIVB and SBNY represent only 0.03% and 0.01% of U.S. domiciled Vanguard fund assets, respectively, as of February 28, 2023. The stocks' decline and trading halt and the failure of the banks will impact investors differently and to varying degrees.
- The U.S. domiciled Vanguard funds that hold SIVB and SBNY stock or bonds all have less than 1% of their assets invested in these securities and therefore we expect only modest impact.

Most of Vanguard's exposure to SIVB and SBNY securities are in index products where Vanguard invests in line with the benchmark. Within our active funds, given the diversified nature of the fund holdings and the small exposure to the impacted securities, we expect limited impacts to overall fund performance. No Vanguard money market fund has exposure to either shuttered bank.

How is the rest of the banking sector impacted by this?

- We will continue to monitor this evolving situation closely. **However, we do not believe there is any financial system risk because of the SVB failure, given that it has very limited investment connections to other banks.** Most U.S. banks do not face the same liquidity pressure as SVB, nor are most banks' depositor bases as concentrated into narrow, interest-rate-sensitive sectors.
- The Federal Reserve announced on March 12, 2023, that it will make available additional funding to eligible depository institutions to help assure banks have the ability to meet the needs of all their depositors. This action will bolster the capacity of the banking system to safeguard deposits and ensure the ongoing provision of money and credit to the economy.
- Additional funding will be made available through the creation of a new Bank Term Funding Program, offering another source of liquidity against qualifying assets, including U.S. Treasuries and mortgage-backed securities, eliminating an institution's need to quickly sell those securities in times of stress.

Should I consider adjusting my portfolio?

- Vanguard believes you should continue to work with your financial advisor and focus on the things that you can control, such as having clear, appropriate investment goals; developing a suitable asset allocation using broadly diversified funds; minimizing investment costs; and maintaining perspective and long-term discipline.
- Financial markets are driven by thousands of highly experienced investment professionals, such as sophisticated traders and professional asset managers who are focused on future market expectations and the news cycle 24 hours/7 days a week.
- When there is breaking news about the economy or financial markets, it tends to be priced into the market right away, considering the open market valuation of each company, sector, and asset class, as well as the future expectations for the company, sector, and asset class.
- Trading based on breaking news—be it within five minutes or five hours after the news comes out—is likely not a recipe for success.
- Life events, not market movement or news, should drive your strategic, long-term, asset allocation strategy. That strategy should be based on your time horizon, risk tolerance, and financial goals—not swayed by news that has already been priced into the markets.

Connect with Vanguard®

advisors.vanguard.com • 800-997-2798



For more information about Vanguard funds or Vanguard ETFs, contact your financial advisor to obtain a prospectus or, if available, a summary prospectus. Investment objectives, risks, charges, expenses, and other important information are contained in the prospectus; read and consider it carefully before investing.

All investing is subject to risk, including the possible loss of the money you invest.

Diversification does not ensure a profit or protect against a loss.

Vanguard is investor-owned, meaning the fund shareholders own the funds, which in turn own Vanguard.

Vanguard®

The Value of Ownership

© 2023 The Vanguard Group, Inc.
All rights reserved.

FASVBCOP 032023