

May 8, 2023

Re: **May Conference Call on Tuesday, May 16, 2023 at 6:30 PM**

Dear client,

When I was growing up in the 60's, there was a great rock band named the Byrds. Maybe some of you remember them, but certainly their memorable lyrics and musical score will live on forever. As I have been spending most of my time assessing the ramifications of the bank failures, the demise of the dollar as the global reserve currency, and the approaching debt ceiling, I remember the important message that Pete Seeger wrote long ago. The song, "Turn! Turn! Turn!" pretty much sums up what is going on in the macroeconomic environment today.

To everything turn, turn, turn
There is a season turn, turn, turn
And a time to every purpose under Heaven.
A time to be born, a time to die
A time to plant, a time to reap
A time to kill, a time to heal
A time to laugh, a time to weep.
To everything turn, turn, turn
There is a season turn, turn, turn
And a time to every purpose under Heaven.
A time to build up, a time to break down
A time to dance, a time to mourn
A time to cast away stones
A time to gather stones together.
To everything turn, turn, turn
There is a season turn, turn, turn
And a time to every purpose under Heaven.
A time of love, a time of hate
A time of war, a time of peace
A time you may embrace
A time to refrain from embracing.
To everything turn, turn, turn
There is a season turn, turn, turn
And a time to every purpose under Heaven.
A time to gain, a time to lose
A time to rain, a time of sow
A time for love, a time for hate
A time for peace, I swear it's not too late.

Last fall, when the Bank of England had to step in to bail out the UK Pension schemes because insurance companies and banks made wrong way bets on the direction of derivatives, I had thought that this would not be the first financial accident and that others would follow. Cracks open up in the financial system anytime interest rates rise quickly and from 0% to 5%. So far, Silicon Valley Bank, First Republic Bank, Pacific Western Bank and Western Alliance Bank are under fire, and they won't likely be the last. Does this mean the entire banking system is insolvent? It is always possible, but very unlikely. Big Banks such as Wells Fargo, Bank of America, Citibank, and JP Morgan Chase are well capitalized and too big to fail. It is the smaller regional banks that are more exposed to residential and commercial real estate mortgages that may experience problems. However, at some point, I would be willing to bet (especially in an

election year) that the government would step in and insure all bank deposits regardless if they exceed the Federal Deposit Insurance Corporation (FDIC) limit of \$250,000.

Yet, banks have tightened up their lending standards and it is precisely this tightening of credit that may push the US economy into a recession sometime this year or next. If that occurs, corporate earnings should decline and so would stocks. On the other hand, if the US Federal Reserve stops raising interest rates, the stock market could rally. Although we have reduced our stock exposure over the past year, we still want a good portion in stocks. Market timing is all but impossible and, in the meantime, we are collecting dividends which in many cases, increase year to year.

The US Dollar has been the lynchpin of the global economic order since 1945 when it became the world reserve currency. Most commodities are traded in US Dollars and many countries rely on the US Dollar as part of their central bank reserve and trade with it. Although the death of the dollar is widely exaggerated, it has come under pressure and will continue to come under further pressure as countries use other currencies to facilitate trade. Russia, China, South Africa, and Brazil have formed a quasi-currency union with another 44 countries ready to sign up. One of the reasons why so many countries would like to ditch the dollar is because the United States uses the dollar as a political weapon by imposing sanctions on those countries that the US doesn't approve of their behavior. Therefore, countries lack confidence in the US Dollar as a store of value. Another reason why the US Dollar could lose its dominance is because the government can't control its spending and is running continued massive budget deficits. A currency's value is almost solely dependent on the holder of that currency having confidence in it and that is because fiat or paper currencies are backed by nothing.

Many of you have been asking me about the US Debt ceiling and what would happen if Congress doesn't come to an agreement to lift the debt limit. I believe there is a 10% probability that the US could default on its obligations. Technically, the US has already reached the debt ceiling, but the "magic sleight of hand" has kept the country afloat. However, this card trick will end in June. What happens next?

If the debt limit isn't lifted in time, the Treasury Department will most likely prioritize the payment of principal and interest on its debt obligations. Just as it happened several times in the past when this has happened, federal employees and contractors are furloughed, and the daily bills don't get paid. More importantly, economic growth will be affected and so will the stock market. Bond yields would rise, but likely only temporarily.

We will be having our next conference call on Tuesday, May 16th, at 6:30 p.m. to discuss the banking turmoil, the US Debt limit, and the dollar. Please join us.

When: Tuesday, May 16th, at 6:30 p.m. (PST)

Topic: BFSG Conference Call Hosted By Steven Yamshon

Please click [here](#) to join the Conference Call.

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All the best,
Steve Yamshon, Ph.D.
Managing Principal

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