ZANETTI FINANCIAL, LLC

Zanetti Monday Missive 2023.03.13
Two Banks Collapsed This Weekend

“The global financial crisis [of 2008] - missed by most analysts - shows that most forecasters are poor at pricing in economic/financial risks, let alone geopolitical ones.”
~ Nouriel Roubini (Professor and Economist)

“I believe that the root cause of every financial crisis, the root cause, is flawed government policies.”
~ Henry Paulson (Former Federal Reserve Chair)

A financial crisis is a great time for professional investors and a horrible time for average ones.”
~ Robert Kiyosaki (Author and Investor)

Hello Everyone!

Yes, you read the title of this missive correctly!

Two banks collapsed this weekend. The first on Friday and the second on Sunday.

The bank that collapsed on Friday was California based Silicon Valley Bank (or “SVB” for short). It was the second largest bank failure in U.S. History. SVB had $209 billion in assets as of Dec. 31, 2022.

By the way, many of you may remember back in 2008, when the largest bank failure happened – that was Washington Mutual. That was one of the many failures that happened during the near collapse of the global financial system.

Here’s a breakdown of why and how SVB failed.

SVB catered primarily to tech companies - not just in Silicon Valley, but around the world. SVB received the tech company deposits and then made them loans.

While the Tech Companies (e.g., Netflix, Facebook, Amazon) stock prices skyrocketed during COVID – thanks in part to all the stimmy checks – so too did the deposits at SVB skyrocket. They rose 86% in 2021, up to almost $200 billion.

Banks have to earn money on their deposits so they can pay out dividends. Usually, that money is made by lending. SVB couldn’t loan it out fast enough so they bought US Treasuries and other government debt to try to earn interest.

Then came the now infamous “transitory inflation.” Since then, the Federal Reserve has been trying (and failing) to slow down the inflation. As many of you have seen, the Tech industry has been tumbling inversely with the raising of rates.

Because tech companies have been tumbling they've had to drain their large deposits at SVB (and other banks) to keep their companies running.

Meanwhile, with rates climbing, SVB's bond portfolio has fallen in value (bonds get killed in a rising rate environment). Eventually, their assets declined on their balance sheet.

Because of all of this, Moody's downgraded SVB's stock on Wednesday. Thursday, SVB's shares fell sharply as investors started selling.

SVB CEO, Greg Becker, tried to reassure customers on Thursday, stating the bank was "on solid footing." It must be noted though that 2 weeks ago, Mr. Becker sold $3.6 million of his own SVB stock. (I'm sure the timing was just a coincidence.)

Becker had sold shares in parent company SVB Financial Group **(AFP)**

Becker's statement didn’t calm the depositors – on Friday, they began pulling their money out lickety split to avoid losing their deposits above the $250K FDIC insurance limit.

This is the definition of a “run on the bank.”

(James Stewart standing in the cashier cubicle in a bank run scene from the 1946 film “It’s a Wonderful Life”.)

By 9 am on the west coast, regulators had seized the bank.

Let’s just say that Friday had a lot of people from around the world spooked throughout the weekend.

Then yesterday (Sunday), Regulators seized a bank all the way on the other side of the country.

They took control of Signature Bank, located in New York, and one of the main banks for cryptocurrency. A weekend “run” on Signature Bank after the fall of SVB triggered the bank seizure.

After this second seizure, US Regulators made a unique announcement. To avoid further “runs” on other banks (around the world, mind you), the FDIC announced they would guarantee all deposits of Silicon Valley Bank – even those above the $250k limit. So, all depositors will get all of their money back – no matter how much.

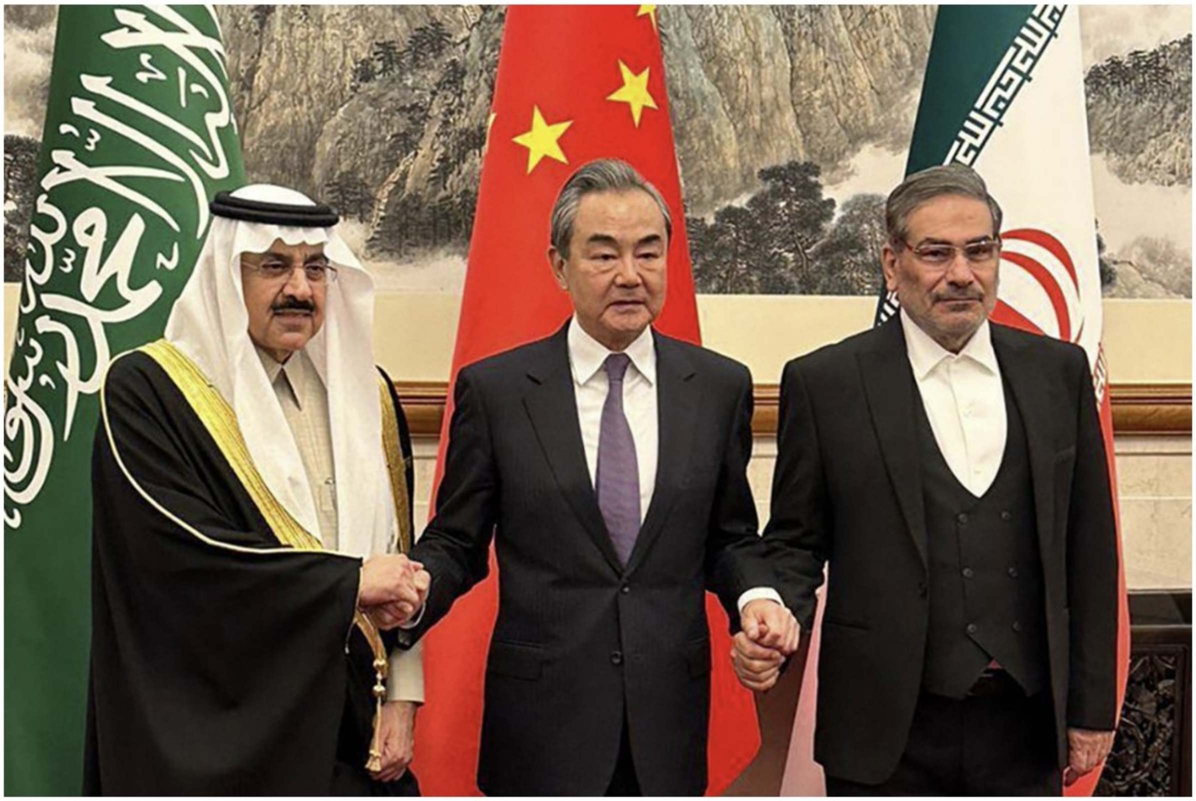
Don't worry, the Fed can always print more money to cover these deposits - especially after congress raises the debt ceiling.

The Federal Reserve (Powell) and the US Treasury (Yellen) then announced they would use emergency lending authority to make more funds available to banks to meet the demand for more withdrawals.

Janet Yellen stated this is not a bailout because bank shareholders and bondholders won’t get these emergency funds.

But, dear reader, I disagree. If a bank that is stretched too thin, doesn’t collapse thanks to FDIC involvement, the bank shareholders and bondholders are "bailed out."

Ok, and sorry to pile bad news upon bad, but on Friday, China mediated a deal between Iran and Saudi Arabia whereupon they agreed to end seven years of political estrangement and reestablish diplomatic relations.



China, which mediated the agreement announced on Friday, has built closer economic ties with both Iran and Saudi Arabia in recent years.
PHOTO: SAUDI PRESS AGENCY/DPA/REUTERS

The deal was hammered out behind closed doors in Beijing between top officials of the three countries. But here’s a more distressing note – the U.S. was not present at that meeting.

The U.S. meanwhile has been unsuccessfully trying to broker an alliance between Israel and Saudi Arabia - to keep Iran's nuclear ambitions in check.

Needless to say, this complicates things.

Your Remember-When-All-We-Were-Worried-About-Were-Balloons-In-The-Sky Financial Advisor,
Walt

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