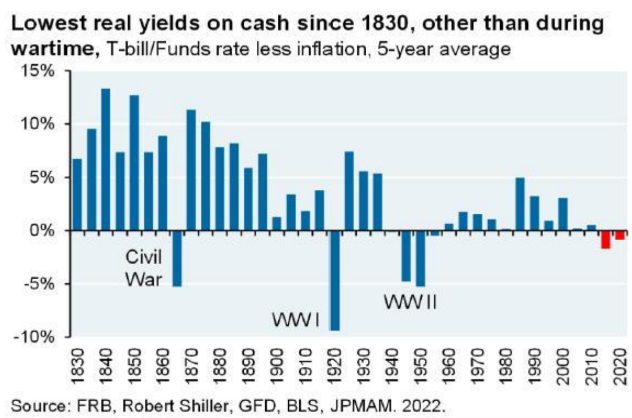
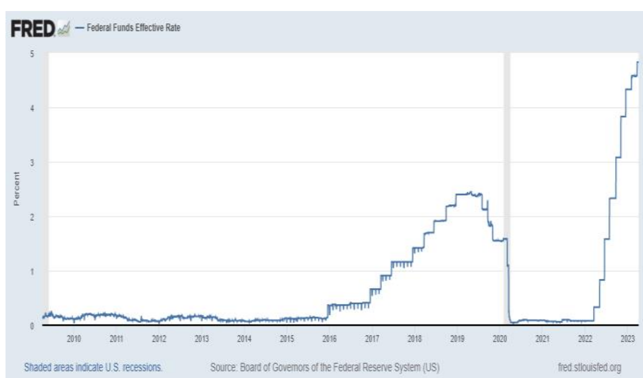
2023 Banking Crisis

The Federal Reserve Is Part of the Problem

The Fed held real rates in negative territory for a decade. The Fed was late in increasing rates to address inflation. It has now raised rates 10x, which has put pressure on bank liabilities and deposit erosion. On Labor Day 2021, the Fed's dot plot chart was only anticipating one rate increase. It did not expect the carnage sequential rate increases would create.





Regulators Are Part of the Problem

With respect to SVB and Signature Bank, these two banks (at their discretion through a regulation loophole) held a sizable portion of their treasury and agency assets as 'Held to Maturity'.

For both SVB and Signature Bank, regulators issued an “Urgent Memo” as well as an “Immediate Urgent Memo”, however regulators failed to act.

Management Is Part of the Problem

They did not monitor the close inter-correlation of their deposit base and the large contingency of deposits greater than $250,000, especially in the case of Silicon Valley Bank and Signature Bank. Regional banks typically have ‘sticky’ money; however, this clearly was not the case at Silicon Valley Bank and Signature Bank.

Credit Suisse and UBS Merger

Under pressure from the Swiss government, UBS purchased Credit Suisse for 1/3rd of its recent market cap. To facilitate the takeover, laws were changed so as not to allow Credit Suisse equity holders to vote on the merger…..unprecedented! In addition, the government allowed Credit Suisse to write off $17 billion in Additional Tier 1 European bonds (‘CoCo’ bonds), while equity shareholders remained intact…. unprecedented!

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