ALTIUS FINANCIAL

EMPOWERED FUTURE REPORT

SHORT-TERM THOUGHTS ABOUT LONG-TERM MATTERS

March 13th, 2023 Even Shorter Commentary

Silicon Valley Bank Collapse

Two weeks ago, in this monthly newsletter I shared a chart showing the incredible liquidity that financial markets have enjoyed recently is now being dramatically drained from the system. On Friday, we saw the largest banking failure in the US since the global financial crisis in 2008. After a sudden two day run on their deposits, regulators closed Silicon Valley Bank (SVB) and took control of its assets. Just before that we also saw Silvergate Bank and Signature Bank, two institutions popular among crypto companies that provided deposit services for their clients' digital assets, close. SVB has been a very prominent bank specializing in start-ups, technology and venture capital backed firms. Technology has been the most dynamic part of the US economy for the last few decades and really did well during the low interest rate environment, and especially during the COVID shutdowns.

In one sense, it's too early to really say if this bank failure will spread to other financial institutions but it has spooked the markets. According to the FDIC, "all *insured* depositors will have full access to their insured deposits" no later than this morning (Monday 3/13). But there is no doubt that the Federal Reserve's dramatic rate hikes along with Quantitative Tightening are having an impact. Yesterday, the Fed announced a new emergency loan program to bolster the capacity of the banking system. Call it a balancing act or call it trying to have your cake and eat it too. I call it the compounding effect of intervention. The artificial, zero-interest rate policy of the last decade created massive incentives for institutions and individuals to chase higher yields. This is what SVB got caught doing: ignoring interest rate risk and extending its maturities to pursue higher yields than zero but, when the Fed increased rates so much so fast, those longer-term instruments lost significant value. With more of their depositors pulling funds than adding deposits, you had a perfect storm for a bank run.

The public breathes a sigh of relief when they hear that FDIC will make good on the deposits, including uninsured deposits, but where does the money come from? Over 90% of SVB deposits *are uninsured*. The Fed will likely impose a special assessment or surcharge on other banks. I said this in 2008 and I'll say it again, it's a mistake when taxpayers or successful banks (and ultimately their customers) are forced to bail out banks (or other companies) that take too much risk.

Bottom Line: Banking is one of the most heavily regulated industries in our country and my view is that our system is *more fragile due to this regulation*. ALTIUS and our clients don't have any direct exposure to Silicon Valley Bank but due to the integrated nature of banking and finance, there are risks for us all. We are monitoring this development closely and continue to evaluate our portfolios, including our exposure to the banking industry generally and will communicate more as news dictates.

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