

# Market Update

## Global Banking System Volatility

17 March 2023

### Market volatility has been elevated over the past week driven by the failure of the Silicon Valley Bank (SVB).

The unfolding situation in the US could be construed as having echoes of the Global Financial Crisis (GFC). This, combined with recent falls in Credit Suisse shares (which appear to be unrelated to the US mid-tier banks), have continued to put jitters into the banking sector. It is important to note, however, that despite the SVB's failure being the second largest in US history, when put into perspective, it's assets are less than one tenth of J.P.Morgan's, one of the major players in the US banking system.

Considering the rapidly developing situation, the US Federal Deposit Insurance Corporation (FDIC) has already taken control of the SVB to navigate the collapse in the best interest of the financial system. Further announcements from the U.S. Treasury have sought to calm the broader market of the financial system's health and to reassure the market that the relevant tools are available, however stating there will be no GFC-style bailout, nor will one be necessary.

The US financial system is considered to be well capitalised overall. According to Mark Zandi, Moody's Chief Economist, the size of the smaller banks at risk is not likely to pose any threat to the financial system overall.

### How it happened

- SVB has been operating in a relatively unusual manner. Instead of lending the deposits received, the Bank invested in long dated fixed interest rate bonds. This exposed the Bank's assets to significant interest rate risk which was not sufficiently hedged.
- Given rising interest rates, the value of the bonds held to cover customer deposits have fallen significantly. The need to sell fixed interest rate securities to cover the withdrawal requests resulted in realised losses.

- Earlier in the month a single sale resulted in a \$1.8 billion loss which led the Bank to raise capital to increase the balance sheet health. This capital raise failed, which prompted customers with deposits with the Bank to withdraw their funds, resulting in a run on the Bank.
- Within 48 hours the Bank was bankrupt with the FDIC taking control of the Bank.
- Since then, the US Federal Reserve and the US Government have guaranteed customer funds at SVB will be paid back in full.
- More recently, major investment bank Credit Suisse has experienced a panic after the share price dramatically fell, with their banking operations coming under pressure.
- Overnight, the Swiss National Bank and the Swiss financial regulator announced support for the Bank announcing that "*Credit Suisse meets the higher capital and liquidity requirements applicable to systemically important banks*" and confirmed they will "*provide liquidity to the globally active bank if necessary*".

### What to do?

This current market volatility, while significant, does not alter our long-term views on how portfolios are positioned. It is important to manage your portfolio in line with your long-term objectives, aligned to your risk tolerance and to that end we would encourage you to discuss your portfolio with us.

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