AlphaWealth Monthly Brief

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"History provides a crucial insight on market crises: they are inevitable, painful, and ultimately surmountable."

- Shelby M.C. Davis

This month's edition of the Brief is intended to provide some commentary around the regional banking crisis that played out this month, and whether the financial vulnerabilities that have been brought to light are enough to cause a shift in tone from Fed Chairman Jerome Powell.

Financial Vulnerabilities in the Banking System

Over the course of the last year, the Fed's singular focus on the execution of monetary policy in the fight to bring down inflation overshadowed their other important job - regulating and supervising our nation's financial institutions and monitoring the whole financial system for potential risks. It is true that the Silicon Valley Bank run that captured headlines over the past several weeks was an outlier in terms of having a concentrated funding base and longer-duration asset composition. However, recent trends in new commercial bank deposits, fueled by an unprecedented injection of liquidity, show that what happened to SVB indicates a system wide phenomenon.

From 2008 until the pandemic, a steady stream of new bank deposits led to relatively small fluctuations in securities holdings on bank balance sheets. When the pandemic hit in 2020, the injection of liquidity into the system drove a massive influx of $5.2 trillion dollars in new commercial bank deposits according to research provided by Guggenheim. In an environment of weak loan demand, commercial banks bought around $2.25 trillion in securities during this period, 87% of which were low-yielding US Treasurys or Agency Mortgage-Backed Securities. The subsequent rate hiking and quantitative tightening campaign slowed deposits to a halt, leaving the general public wondering whether the asset/liability imbalance that existed at Silicon Valley Bank could exist at other small and mid-sized regional banks.

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Measures have been taken to sure up confidence in the banking system. Guggenheim's Chief Economist Brian Smedley notes that the easing of terms on the Fed's discount window and the creation of a new Bank Term Funding Program (BTFP) were not just a forceful response to the SVB bank run, but also a way to address possible similar scenarios that may play out across the banking system. While these measures buy banks and regulators some time, tighter credit conditions across the economy could be a hit to bank profitability, leaving small and mid-size banks in a difficult position. Furthermore, the financial spillovers from the size and speed of the tightening policy we've endured up to this point are simply a guessing game. With this as the backdrop, the Fed decided on a 25-basis points rate hike last week, compared to the 50-basis point hike that was expected just a few weeks ago. Investors are now left debating whether the financial vulnerabilities that have been brought to light are enough to cause a shift in tone from Powell and Co.

Industry Leaders Sound Off

Over the course of the last month, industry experts have weighed in on the challenges facing regional banks, the broader economy, and the precarious position of the Fed. Check out these five highlighted below.

JPMorgan's Dr. David Kelly on the future course of the Fed: "We've learned what the limit is in terms of quick Fed tightening - the limit is here, and the Federal Reserve should just stop."

Cohen & Steers' Rich Hill on the deteriorating fundamentals in the office sector: "What's changed in the last few weeks is the credit markets. It went from a story of work-from-home and the impact on occupancy and the lack of rent growth to also the compounding of tighter financial conditions given everything happening with banks."

Hedge Fund manager Ken Griffin's criticism of the government's decision to backstop SVB depositors: "Losses to depositors would have been immaterial, and it would have driven home the point that risk management is essential. We're at full employment, credit losses have been minimal, and bank balance sheets are at their strongest ever."

Hedge Fund manager Bill Ackman defends feds' intervention: "Had the FDIC, the Treasury, and the Federal Reserve not intervened today, we would have had a 1930s bank run continuing first thing Monday causing enormous economic damage and hardship to millions."

Blackrock's Rick Rieder taking the role of Fed critic: "Taking the role of critic for a moment, some of the difficult challenges facing the Fed today were the result of unforced errors in allowing rates to stay so low for so long, excessive amounts of Quantitative Easing, and then a need to rapidly raise interest rates to offset an extremely elevated level of inflation."

Fast Facts

U.S banks borrowed over $150 Billion from the Fed's discount window during the week ending March 15th, blowing past the previous record of $112 billion during the 2008 financial crisis. – The Washington Post

U.S companies reshored 364,000 jobs from overseas last year – The Wall Street Journal

An Illinois man has filed a class-action lawsuit against Buffalo Wild Wings because its so-called "Boneless Wings" are breast meat, not wings. Airmen Halim's suit seeks punitive damages for what he calls a "clear-cut case of false advertising." The restaurant chain mocked Halim's complaint, noting in a tweet that "our buffalo wings are 0% buffalo. - NPR

Sales of luxury homes- defined as those estimated to be in the top 5% in market value, dropped 44.6% year over year. - BusinessWire

Africa has about 30% of the world's reserves of minerals that are crucial to helping the modern world transition to green energy. - SAIIA

The Federal Railroad Administration, which has been monitoring annual train accidents across America since 1975, has recorded more than 12,500 derailments in the last decade alone. That's equivalent to some 24 trains veering off track every single week. - Chartr

Charlie Chaplin, the Lifetime Achievement award winner from the Academy of Motion Pictures, once entered a Charlie Chaplain look-alike contest. He came in third. - Newsweek

Contact Us

As always, feel free to reach out to us if you have any questions regarding your investments or financial plan or would like to schedule a meeting with our advisors.