LOM

1992

Weekly Global Market Commentary

March 14, 2023

Silicon Valley Bank by Peter Goodall, CFA, FRM

Global markets fell sharply last week as fears of an overly aggressive federal reserve hike were compounded by the collapse of Silicon Valley Bank. In the United States, The Nasdaq fell 4.68%, followed in close order by the S&P 500 (-4.51%) and the Dow Jones Industrial Average (-4.35%). Consumer Staples (-1.89%), Utilities (-2.82%), and Information Technology (-3.05%) were the strongest performing sectors. Financials (-8.46%), Materials (-7.61%) and Real Estate (-6.87%) were the weakest performing sectors in the US. The Eurozone was only down -1.52% but we saw markets fall into lockstep upon opening Monday morning. The Nikkei rose 0.78% on the week, having closed before the banking fallout. China's Hang Seng fell 5.99%.

What Happened?

On Friday, Silicon Valley Bank collapsed following a run on its deposits. Banks operate on trust. They take short term deposits from clients and invest in long term debt, making the spread. Bonds usually pay higher interest rates to compensate bondholders for locking up their capital for longer periods. The Federal Reserve has been raising interest rates aggressively to get inflation under control. When interest rates go up, existing bond prices go down (and vice versa). Since rates have been going up, long term bonds have paper losses. Those losses do not matter if they are held to maturity. Banks only realize losses when the need to sell off those long term bonds early to cover short term withdrawals.

On Wednesday, Silicon Valley Bank announced it would be raising $500 million from a venture capital firm while unloading roughly $21 billion in assets to cover the outflows, incurring a $1.8 billion loss. The announcement caught clients and shareholders off guard. Attempts to calm fears failed and clients started pulling assets out, compounding the problems. By Friday, the FDIC (a government insurance that banks pay into to protect depositors against banks failing). The failure in Silicon Valley Bank was mirrored in Signature Bank (which was pulled down by crypto exposure) and First Republic.

Signature Bank and Silicon Valley Bank are now run by the FDIC, which has backed the depositors' accounts. There were concerns over the weekend that the FDIC insurance (which covers the first $250,000 of deposits for individuals and corporations) would not be sufficient for companies. This typically isn't a problem for US retail investors, as most don't hold that much money in bank accounts. Corporations were a different story. Some were facing an inability to meet payroll as funds were frozen. Over the weekend, the FDIC announced they would be fully covering all accounts (though the bank and shareholders would not be bailed out like in the 2008 crisis). This crisis appears to be contained.

Financials, more broadly, have been pulled down as investors discounted the risk for further contagion in capital markets. We have seen this discount unwinding on Tuesday as markets stabilize.

Does LOM Asset Management have Exposure?

We don't have any direct exposure to Silicon Valley Bank, Signature Bank or First Republic. We have seen more dramatic movements in the financials sector as speculators are driving down stock prices across the industry (specifically in regional banks). By Tuesday morning, we saw calm returning to the markets.

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Stock Market Performance				
	3/11/2023	W-o-W	M-o-M	Y-o-Y
DJIA	31,910	-4.4%	-5.8%	-3.1%
S&P 500	3,862	-4.5%	-5.6%	-8.2%
MSCI World	2,657	-3.6%	-4.5%	-6.4%
SP/TSX	19,775	-3.9%	-4.1%	-7.9%
BSX	2,428	-1.0%	3.8%	-1.4%
FTSE100	14,455	-2.4%	-1.1%	13.0%
DAX	15,428	-1.0%	0.8%	13.2%
CAC	7,221	-1.7%	1.3%	15.3%
Nikkei	28,144	0.8%	1.7%	11.8%
Hang Seng	19,320	-6.1%	-8.8%	-6.0%
Shanghai	3,230	-3.0%	-0.9%	-2.4%

Key Rates and Prices			
Currencies	3/11/2023	Month Ago	Year Ago
EUR	$1.06	$1.07	$1.09
GBP	£1.2	£1.21	£1.30
JPY	¥135.03	¥131.36	¥117.29
CAD	C$0.72	C$0.75	C$0.78
CHF	CHF1.09	CHF1.08	CHF1.07
AUD	A$0.66	A$0.69	A$0.73
Fixed Income			
3M LIBOR	5.14	4.87	0.83
3M Treasury Bill	4.91	4.76	0.38
2Yr Treasury Note	4.59	4.52	1.75
10Yr Treasury Note	3.70	3.74	2.00
Fed Funds Rate	4.75	4.75	0.25
Commodities			
Gold/oz.	1,86826	1,865.57	1,988.46
Silver/oz.	20.54	22.00	25.87
Copper/lb.	4.02	4.02	4.62
Oil	76.68	79.72	109.33

Global Economic Calendar (Mar 13th - Mar 17th)	
Monday	
Tuesday	CPI MoM (US); Jobless Claims Change (UK)
Wednesday	CPI YoY (FR); Retail Sales Advance MoM (US);
Thursday	Industrial Production MoM (JN); Initial Jobless Claims (US); ECB Main Refinancing Rate (EC)
Friday	CPI YoY (EC)

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