Macro Roundup Artcile

Headline: Silicon Valley Bank Blinders

Article Link: https://johnhcochrane.blogspot.com/2023/03/silicon-valley-bank-blinders.html

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Tweet: .@JohnHCochrane writes, “The Silicon Valley Bank failure strikes me as a colossal failure of bank regulation,” and argues that duration risk at banks will now be an additional constraint on the Fed’s hiking cycle.

Summary: The Fed faces many headwinds in its interest rate-raising effort. For example, each point of higher real interest rates raises interest costs on the debt by about $250 billion (1 percent x 100% debt/GDP ratio). A rate rise that leads to recession will lead to more stimulus and bailout, which is what fed inflation in the first place. But now we have another. If the Fed has allowed duration risk to seep in to the too big to fail banking system, then interest rate rises will induce the hard choice between yet more bailouts and a financial storm.

Primary Topic: Business Cycle

Topics: Banking, Business Cycle, Financial Markets, Op-Ed/Blog Post

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