Macro Roundup Article

Headline: Silicon Valley Bank Failure

Article Link: https://assets.jpmprivatebank.com/content/dam/jpm-wm-aem/global/pb/en/insights/eye-on-the-market/silicon-valley-bank-failure.pdf

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Tweet: A research piece by Michael Cembalist @JPMorgan calculates capital ratios for key banks assuming that all unrealized securities losses were realized. Silicon Valley Bank (SIVB) was an outlier.

Summary: The irony of SIVB [Silicon Valley bank] is that most banks have historically failed due to credit risk issues. This is the first major one I recall where the primary issue was a duration mismatch between high quality assets and deposit liabilities. As shown below, being flooded with deposits from fast-money VC firms and other corporate accounts at a time of historically low-interest rates might have been more of a curse than a blessing. Between Q4 2019 and the first quarter of 2022, deposits at US banks rose by $5.4 trillion and due to weak loan demand, only ~15% was lent out; the rest was invested in securities portfolios or kept as cash.

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