Macro Roundup Article

Headline: Frankenstein's Monster

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Publication	J.P. Morgan
Publication Date	April 12, 2023

Tweet: Michael Cembalest @jpmorgan argues that the banking system is now stabilizing, with the pace of drawdowns slowing from mid-March.

Summary: The presence of unrealized losses on bank balance sheets is not abnormal, and is entirely consistent with a rising interest rate cycle. The problem this time: some banks were flooded with so many stimulus-related deposits at a time of low rates that their balance sheets are stuffed with low-yielding assets. And to reiterate, this is only a problem when large deposit outflows cause unrealized losses to be realized. The Fed’s new rules for the Discount Window allow banks to borrow against securities at book value rather than market value, so that should help. But it doesn’t address banks with underwater, high-quality loans or the flood of deposits departing for higher money market fund yields. Many system indicators are now stabilizing, but one news story, one rating agency action or an announcement from a single bank could reignite market/depositor concerns.

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