Thomas A. McCarthy, CFP®, AIF®
CERTIFIED FINANCIAL PLANNER™
Accredited Investment Fiduciary®
Tom@McCarthyandCox.com

James B Cox, CFP®, AIF®
CERTIFIED FINANCIAL PLANNER™
Accredited Investment Fiduciary®
Jim@McCarthyandCox.com

Ryan E Mickelson, CFP®, AIF®
CERTIFIED FINANCIAL PLANNER™
Accredited Investment Fiduciary®
Ryan@McCarthyandCox.com

McCARTHY & COX
Retirement & Estate Specialists LLC

Mark Finney, CFP®, CRPC®, AIF®
CERTIFIED FINANCIAL PLANNER™
Chartered Retirement Planning Counselor℠
Accredited Investment Fiduciary®
Mark@McCarthyandCox.com

Megan McCarthy Collins, CFP®
CERTIFIED FINANCIAL PLANNER™
Megan@McCarthyandCox.com

Wesley W. Bean, CFA®
Chartered Financial Analyst
Director of Investment Services
Wes@McCarthyandCox.com

Silicon Valley Bank's Collapse

Silicon Valley Bank's (SVB) collapse last week was the second largest bank failure in U.S. history, and largest since the Global Financial Crisis. Investors are now worried that other banks could face a similar fate. While there's no denying banks face challenges with the Federal Reserve aggressively hiking rates, SVB bears little semblance to the broader banking sector. These differences led directly to SVB's collapse and given the overall health of the broader banking system, lowers the risk of contagion.

SVB's customer base was dominated by technology start-ups and venture capital firms. It's been a difficult time for many of these types of companies, and some began withdrawing bank assets to keep their businesses afloat. Then last Wednesday, SVB announced they had liquidated $21 billion of securities from its portfolio to meet customer deposit withdrawals, resulting in a $2 billion loss. They also announced a plan to raise $2.25 billion in additional funds to shore up its liquidity. Venture capitalists advised their clients to withdraw their assets from SVB, and SVB ended the day Thursday with a negative cash balance of nearly $1 billion. The FDIC intervened and placed SVB into receivership.

Larger banks like Bank of America, JPMorgan, Citigroup, and Wells Fargo have much more diversified client bases and funding sources. They are also subject to more stringent capital requirements and stress tests. Risk is also mitigated by the fact that the broader banking sector - especially the largest banks - do not share the same idiosyncratic vulnerabilities of SVB.

A joint statement from Treasury Secretary Janet Yellen, Fed chief Jerome Powell and FDIC chair Martin Gruenberg said depositors will have access to all their money today from Silicon Valley Bank. No losses will be borne by the taxpayer. Any losses to the Deposit Insurance Fund to make uninsured depositors whole will be recouped by a special assessment on banks, the statement said.

While this may not be a direct systemic concern, it's a byproduct of the Fed's monetary actions and tightening liquidity conditions. It's a very direct sign that tightening monetary policy is having real economic impacts. This has cast doubt on whether the Fed will raise by 25 or 50 basis points – or even at all - at its policy meeting next week.

In short, the idiosyncratic nature of SVB's vulnerabilities and the otherwise healthy fundamentals of the broader banking system lower the risk of contagion. Additionally, the situation with SVB could cause the Fed to slow, or even stop, its plan to move forward aggressively with rate hikes.

Home Office: 127 W. 5th St., Marysville, OH 43040 | **Dublin:** 655 Metro Place South, Suite 600 | Dublin, OH 43017
McCarthyandCox.com | 877.738.9871 | 937.644.0351 | **Fax:** 937.644.0356