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Which is Worse: SVB, The Biden Budget or The Fed's Inflation

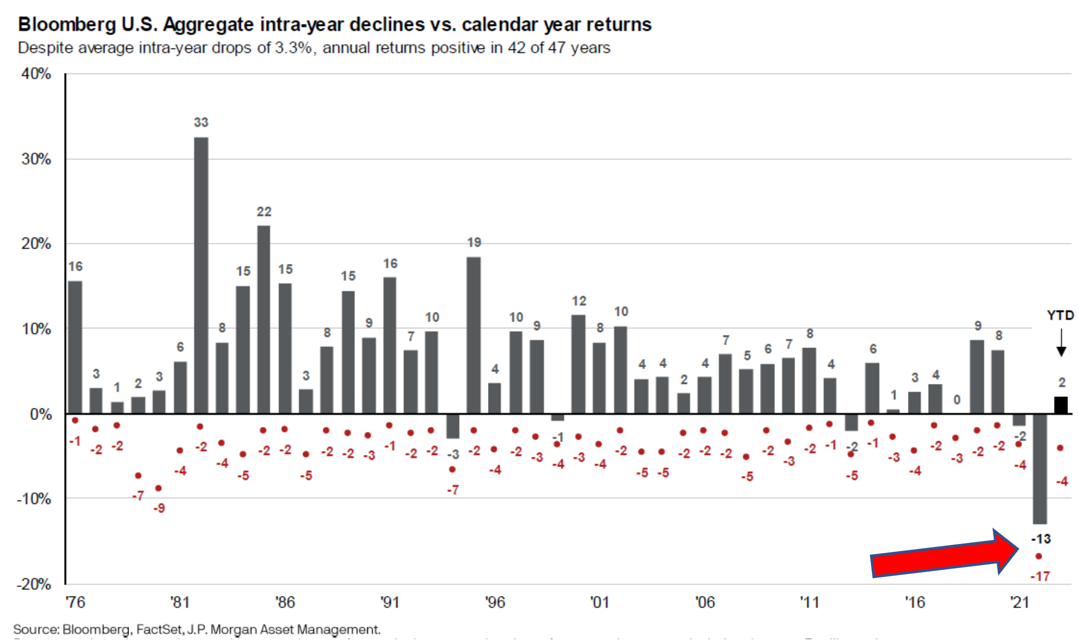
– Derrell Crimm, CFP®

Yesterday morning, many people quipped that the scene at Silicon Valley Bank (SVB) reminded them of Sunday night's Oscar winner for best picture, "Everything, Everywhere, All at Once." There is a better Oscar winner that is more reflective; in a scene akin to a modern-day version of the bank run in the holiday classic "It's a Wonderful Life." The rapid collapse of SVB last Friday was in many ways a symptom and casualty of the Fed's 12-month campaign of rapid rate increases to combat inflation. The speed of the SVB collapse created concerns of further contagion across the banking sector. As that fear began to grow it translated into a broader selloff of bank stocks, which dragged the overall stock market down about 5% with a flight to Treasuries, causing yields to drop a significant 50 bps (basis points) by week's end. At Friday's close, investors were still in the dark as to how it would play out.

While many investors are focused on the financial troubles affecting Silicon Valley Bank (SVB) and whether those troubles will spread, there were two other major issues that hit the markets last week: the Biden budget and Fed Chief Powell hinting at raising rates by a half a percentage point rather than a quarter. We will ignore the budget, it is dead upon arrival; and wait to see what the Fed does.

Regarding SVB, it is not a ***systematically*** important bank that will, through counterparty risk, tear down the whole financial system. Instead, it is ***symptomatically*** important, showing what happens when the Fed increases the money supply (M2) and then claims inflation is transient, when it isn't. SVB's managers made a huge mistake by not diversifying its assets' interest-rate risk. But it's a mistake they were seduced into making by bad Federal Reserve policy that was too loose for too long.

Here is a graphic that illustrates the 2022 decline in bonds was historic when SVB was invested in bonds.



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In financial markets, the acronym TINA stands for “there is no alternative” and is typically uttered by investment analysts and advisors in reference to equities. It’s most often bandied about when the performance of stocks is disappointing, and their prospects seem anemic.

Even if there are no good reasons to buy stocks now, TINA argues investors should stay in the market because there’s no other place to go.

Starting about six months ago, analysts from top Wall Street firms began attacking TINA, claiming there are good alternatives to stocks for investors. For example, on Sept. 26, a major Wall Street firm promoted TARA — “there are reasonable alternatives” — over TINA, recommending investors underweight stocks in favor of cash. In hindsight, that was not a good choice, as stocks have rebounded almost 10%. To all our clients who are staying put and recognize that the market goes down on average every 1 out of 4 years, there are opportunities ahead in the quality of your investments.

I welcome the opportunity to talk with you about any of these issues. Reach out to me by email (Derrell.Crimm@acfinancialpartners.com), text (205-235-5165), phone (also 205-235-5165), or stop by the office. We can discuss this or any other concern you share.