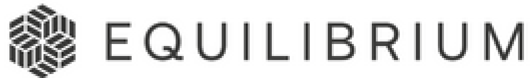

16 March 2023

Update on Silicon Valley Bank and Credit Suisse

We sent out The Pulse yesterday which included our initial thoughts on Silicon Valley Bank (SVB).

Since then, headlines around Credit Suisse have added to market jitters.

I drafted a rough series of bullet points for internal use yesterday, summarising our latest thoughts about some of the implications. We felt it would be useful to share with our clients as well and this is repeated below.

In summary, we think this is a crisis of confidence – not a banking crisis.

We will release further communications in the next week, but in the meantime, we hope you find the below helpful.

Please do get in touch if you have any queries.

Kind regards

Mike Deverell

Partner & Investment Manager

Banks and the economy

(drafted 16 March 2023)

This is a crisis of confidence – not a banking crisis.

The banking system is fine in our view. Generally, banks are well capitalised and the authorities have shown they have the ability and the willingness to stand behind them if required.

SVB and Credit Suisse are very different issues. SVB was caused by deposit flight (see The Pulse).

Credit Suisse was due to the latest in a long line of bad headlines, poor risk management and scandals. The most recent headline was a fairly innocuous one about its largest investor declining to add to their holding.

It is unfortunate that the issues at SVB and Credit Suisse hit the headlines at the same time.

We think Credit Suisse may end up nationalised (in full or in part – think RBS or Lloyds), or more likely merged with another bank (UBS? Julius Baer?) and depositors will be fine.

We expect deposits will continue to leave smaller US banks and end up at the big institutions.

You might not want to be a shareholder in regional US banks or Credit Suisse, but we expect depositors will be fine.

However, given confidence was fragile anyway, this will likely have an impact on the global economy.

Firstly, banks will want to keep back more capital and may tighten lending criteria / be more reluctant to lend.

Businesses may be more likely to hold off on new investments whilst they wait for things to settle down. Consumers may be less likely to spend for similar reasons.

Our base case is now back to being a likely slowdown / possible recession this year (in US, Europe and UK). However, still likely to be relatively mild in our opinion (depending on what happens from here).

On the plus side, this means that the “sticky” service-led inflation may be less prevalent.

Central banks will likely want to pause rate hikes and may be forced to cut if the economy does take a downward turn.

Essentially, we’re back to where we thought we might be late last year (the economy has done better than expected so far in 2023).

We’ll continue to watch events carefully and will provide more information on the implications for markets and portfolios, along with details of actions taken, in the next few days.