

Is this the start of another Financial Crisis?

With the failures of Silicon Valley (SVB) and Silvergate Bank last week, there has been much talk in the media about the health of the U.S. Banking sector. There is no comparison to the collapse of Lehman Brothers back in 2008 and the ensuing financial crisis. Neither one of these banks is systemically critical to the overall U.S. economy. Both banks experienced explosive growth throughout the Covid shutdowns and subsequent government stimulus programs. SVB benefited immensely from the growth in the Technology sector during this time, though it has been hurt recently by the slowing down of this same Tech sector.

If we look across the U.S. economic landscape, we see a much different situation than we did back in 2008. U.S. consumers are not over-levered, the Banking sector overall is well capitalized, and although the housing market has weakened over the last 12 months, it appears that we have a shortage of housing currently. Employment remains strong even though we appear to be experiencing a slowdown in the economy here at home.

If you remember back in 2008, we had so over-built housing here in the U.S., banks were making loans to anyone that wanted a loan regardless of their creditworthiness or ability to pay the loan back. Millions of people defaulted on their mortgages and walked away from their homes. Banks were left holding mortgages on homes that had dropped significantly in price, thus negatively impacting the bank's balance sheet. At the height of the panic, it got so bad financial institutions would not make overnight loans to one another. Today, a consortium of banks led by JPM Chase is actually depositing money into Republic National Bank which is facing similar issues to SVB (they being similarly exposed to the Tech sector).

I have to believe this is part of the process of reigning in the excesses of the Covid era. You cannot close the global economy, then try and restart things by flooding the system with money without having some casualties. The Federal Reserve here in the U.S. has literally printed money, along with holding interest rates near zero, of course we are going to have casualties. This is part of the process to normalization.

On a more personal note, our money market investments at Fidelity did not have any exposure to these banks. Fidelity has put out an information piece on this if you are interested. Again, any thoughts or comments are always welcome.

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