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WEEKLY ANALYSIS

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SVB BANKRUPTCY: A NEW PARADIGM IN MONETARY POLICY?

The bankruptcy of the SVB has various consequences. The systemic risk seems to be ruled out by central banks. CS is a global systemic bank. SNB support was expected. A likely new paradigm for rates.

Key points

- Silicon Valley Bank (SVB) bankruptcy will affect US monetary policy
- The next US rate hike could be the last
- European Central Bank stays the course and reassures
- Systemic risk ruled out by central banks
- CS's solvency seems assured despite its performance and repositioning strategy
- FINMA and SNB reassure and support CS
- A new, more favorable paradigm for interest rates is taking hold in the short term

Silicon Valley Bank (SVB) bankruptcy will affect US monetary policy

The failure of the Silicon Valley Bank has already pushed the American authorities and the Fed to act very quickly to avoid a panic. The former, through the voice of President Biden, sought to reassure by noting that the banking system was solid, while the latter also reassured by making liquidity available to institutions that might need it.

But for the next few weeks, the SVB's bankruptcy could have more significant effects by significantly altering investors' expectations regarding monetary policy. If only a few days ago, the probability of a Fed rate hike of 50 bps, instead of the initially expected 25 bps, had become very high due to the development of the increasingly consensual no landing scenario, it has become practically zero after this event.

Indeed, it is now likely that the US Federal Reserve will put its role as a stabilizer of the financial system back at the forefront of its risk analysis and interest weighing in the face of its hitherto stated desire to fight inflation as a priority.

In one weekend, terminal rate expectations have already been adjusted downwards, with the September 2023 Fed Funds rate dropping from 5.6% to 4.2%.

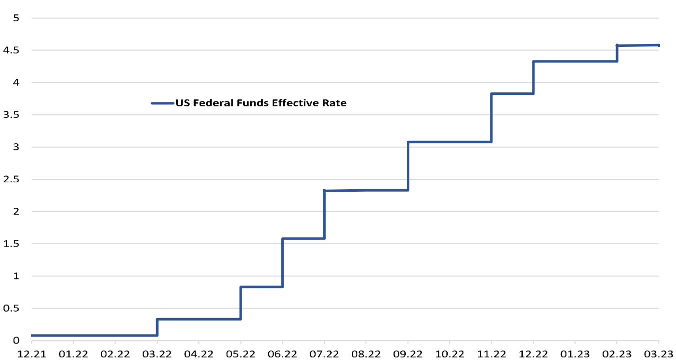
Such an adjustment now even suggests that a cut in policy rates could already take place during the summer, with the September and December Fed Funds now lower than in March, possibly constituting the first phase of monetary easing after the cycle started in March 2022.

This 180-degree turn in policy rates could open up new prospects for financial assets, especially those that were severely affected in February and early March by the rebound in financing costs driven by the inflationary no landing scenario.

After having suffered from tightening monetary conditions well into 2022, an unexpected easing would offer completely different conditions for the valuation of financial assets.

The historic drop in yields this weekend could help revive interest in risky assets, especially banks, real estate companies and technology or digital stocks.

Evolution of the Fed Funds rates



Sources: Bloomberg, BBGI Group SA