

The Collapse of Silicon Valley Bank & Its Ramifications on Financial Markets

17 March 2023

What Happened?

On March 10, 2023, Silicon Valley Bank (SVB), the US's 16th largest bank, collapsed and was taken hold by banking regulators. The Federal Deposit Insurance Corporation was appointed as the receiver of the bank.

This is the first insured financial institution to fail this year and one of the largest bank failures since the Global Financial Crisis in 2008. SVB's shares fell 66 just before the news of the collapse.

Why It Happened & Who Are Responsible?

The bank's collapse appears to have resulted from a mismatch between the investors' cash deposits and how the banks invested their capital in longer-term bonds. SVB was also concentrated on the tech sector, which has been squeezed in the last 12 months, which meant they were taking money out of the bank and struggling to raise equity.

This event indicates not only a failure of SVB's management, but also a failure of US regulators to prevent such events. The banking environment is very different from that of 15 months ago, with access to credit much harder to come by. Events such as this tend to happen when central banks rapidly increase interest rates to slow down the economy and cool high inflation.

What Is the Immediate Impact of the Collapse?

The already volatile and risk-off equity market environment did not respond well to the news of the collapse of SVB, with the S&P 500 suffering its biggest weekly percentage loss since September 2022, and the Nasdaq had the largest loss since November 2022. Regional US banks were impacted more than their major US bank counterparts by this news.

Are We At Risk of Another 'Lehman Brothers Event'?

Currently, we do not foresee the likelihood of a 'Lehman Brothers event' resulting from the collapse of SVB, which could cause major broad-based systemic and contagion risks for both the US and global financial systems.

However, this start-up-focused lender will cause some pain to Silicon Valley and the broader Venture Capital sector that has deposits with the bank. Deposit holders have been informed that their deposits have been frozen, and many of these start-up firms use these deposits to meet payroll obligations and pay staff wages.

We expect authorities to get involved and provide some level of support to the companies affected by this insolvency and avoid any potential collateral consequences across the broader financial system. US regulators have announced that SVB customers would receive all their deposits placed with SVB.

Contact Us

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