INVESTMENT UPDATE – March 2023

Volatility in the banking sector

There has been substantial recent volatility in the banking sector, which has impacted on markets that had already been factoring in the likelihood of interest rates saying higher than earlier expected this year. We see this as challenging but not the start of a financial crisis.

Silicon Valley Bank (SVB), a specialist US bank for technology and venture capital firms, failed following a rush by depositors to withdraw funds - it could not cope as it had placed customer funds in longer term-bonds, which had fallen in value with the rise in interest rates and which it was forced to sell at a loss, which proved to be poor risk management (and probably weak regulation). Regulators in the United States also closed Signature Bank in New York, a firm with links to crypto-currencies. However, the authorities moved swiftly to guarantee the deposits at both banks and to make available additional funding to financial institutions, to help to avoid a repeat of the issues at SVB.

These moves have served to reduce the risk of problems for other banks, in a sector which is broadly more robust and better capitalised than at the start of the 2008 financial crisis. There will be pressure on a number of banks with concentrated client bases, perhaps in niche areas which have seen rapid growth, although we do not envisage a systemic issue. It is likely that the banking sector will see greater regulation, which may reduce the capacity to lend and so constrain wider economic growth, while profits margins might fall too. Central banks may now err on the side of caution in their approach to interest rate rises and to monetary policy generally which may prove a fillip for markets.

We shall maintain portfolios that are well-diversified and with a focus on quality companies and cash-flow generation. We shall provide the next monthly update on 3rd April and we are ready to answer any questions.

Edward Hands – Director **14th March 2023**

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