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Panic in the STREET: One Bank Crashes, A Bigger One RUNS for its life then crashes, and Suddenly it's Panic on Wall Street!

About David Haggith Please see the "About " page for this site.

22-28 minutes

Just when you have figured out what you're going to write about at the start of day, along comes major morning news that sweeps your plans away. Today, the news changed more quickly than I could write the introduction to this article. I had to rewrite it and the headline several times after I published the article!

Just a glance at the top *Daily Doom* headlines this morning gives you a clear overview of all that transpired in one twenty-four-hour news cycle:

One Bank Folds, Another Wobbles and Wall Street Asks If It's a Crisis

A Bank Run Jolts Markets on Friday as Investors Weigh the Jobs Report

Silicon Valley Bank Financial in talks to sell itself after attempts to raise capital have failed

Financial markets go down the rabbit hole

Why Silicon Valley Bank's crisis is rattling America's biggest banks

S&L Crisis 2.0? "Everyone is huddled on the wrong side of the boat"

Treasury Yields Plunge Most 'Since Lehman', Gold Soars Amid Dovish-Dive In Fed Expectations

We Are Seeing 'Blind Panic' – US Jobs Data Upstaged By Fears Of What Else May Be Out There

And that was just the beginning!

(Note: Readers of *The Daily Doom*, who get the morning news articles that become seeds for my own articles, may want to read the next section of this article, even though they've read a fair part of this morning, just to see who it had to be changed.)

Panic sweeps through the marketplace

It was not at first the big banks crashing, but smaller banks (Silvergate) with heavy exposure to crypto currencies. That caused some analysts and financial commentators to ask if this is the beginning of "Savings & Loan Crisis 2.0." Now, with one small bank down ~~and one big one on the way~~ **and another much bigger one already down, too (AM revision)**, a panic ~~has begun to sweep~~ **has swept** through Wall Street.

Out of the blue, serious problems emerged in one of the nation's top-twenty banks — Silicon Valley Bank, which grew exponentially during the tech craze in stocks. ~~A run on deposits at SVB~~ **The all-out crash of SVB** right after the failure of a small crypto bank, which already had investors a bit on edge, left global stock markets gasping even when rising unemployment rates today would normally have breathed life into stocks (under the Wonderland bad-news-is-good-news scenario in which stock investors sigh in hope that relief from Fed tightening may be right around the corner if the economy is slowing as the Fed wants).

Instead, stocks plummeted yesterday and ~~opened down~~ **plunged again** globally today — especially bank stocks, *even too-big-to-fail bank stocks* — as contagion fears build around the ongoing cryptocrisis that began last summer that is refusing to settle down, but especially as it suddenly ~~appears~~ **became a fact that** Fed interest hikes have reached the point of suffocating speculative tech companies and taking out banks. SVB is a major player in the venture-capital realm where companies with promise but no profit financed their way along, covering their expenses with ultra-cheap credit that is no longer available.

These zombies are rapidly depleting the cash "burn" they raised and have stored in banks like SVB, leaving Wall Street to now worry that the ~~run on SVB~~ **crash of SVB**, as other tech companies try to protect what cash they have left, may be the emergence of something more ominous than was seen at Silvergate. ~~It could be that we have~~ **We have** hit that point where the Fed has tightened until something big broke. The nearly overnight emergence of a truly major bank that clearly lost its shorts as the tide ran out (its stock down 60% in a day and still falling again today) leaves investors wondering how much more is already breaking beneath the surface in other sizable banks.

And the bailout-beggars have already started sounding off on SVB's behalf (and you can be sure on their own behalf as well). Even Michael Burry (not a bailout dude, but a short-the-duds dude), the eccentric investor featured in the "The Big Short," warned, "It is possible today we found our Enron."

And, from the time I composed that intro in the early morning, which I had to revise as soon as I published it, the news got worse! Much worse!

A marathon run of runs begins

The run on SVB started as venture capitalists urged their clients to quickly withdraw their funds in order to save themselves.

> ***Venture capital firms on both sides of the Atlantic have been urging their portfolio companies to move money out of embattled lender Silicon Valley Bank, deepening fears of a run on the tech-focused bank….***
>
> Numerous VC funds, including major players like Founders Fund, Union Square Ventures and Coatue Management, have advised companies in their portfolios to move their funds out of SVB to avoid the risk of being caught up in the potential failure of the bank. Having funds frozen at SVB could be deadly for a money-burning startup, according to founders with accounts at the bank who spoke to CNBC on the condition of anonymity….
>
> "In light of the situation with Silicon Valley Bank that we are sure all of you are watching unfold, we wanted to reach out and recommend that you move any cash deposits you may have with SVB to another banking platform," said Anna Nitschke, Pear's chief financial officer, in an email to founders obtained by CNBC.
>
> *CNBC*

Warnings of that kind, which appeared overnight around the world, built on fears that had already been building to a slow simmer on Wall Street, as I had covered yesterday in *The Daily Doom*. That set the mood for a much broader scare today:

> ***The wind-down of crypto-centric Silvergate Bank and pressure on Silicon Valley Bank this week reminded some founders of the 2008 financial crisis, in which banks toppled during the mortgage bust….***
>
> As rates have risen, company valuations have seen something of a reset, and venture-backed firms are feeling the pinch as VC funding market experiences a slowdown. Even with funding rounds slowing, startups have had to keep burning through cash raised from earlier rounds to cover their overheads.
>
> That's bad news for SVB, as it means ***companies have had to drain deposits from the bank at a time when it is losing money on excess cash invested in U.S. debt securities, which have now fallen in price after the Fed's rate hikes.***

Yes, this is, once again, *Fed tightening* causing the exact kind of damage I laid out for what is coming (now is HERE); and it comes, inevitably from way too much prior Fed loosening of monetary conditions.

This also seriously bad news for *other* banks that are heavily involved in either the crypto sector or the high-tech sector of the economy. The latter realm contains many of the zombies I warned my Patrons about in many posts early last year and the year before that as the kinds of companies that would be first to fall when the real Everything Bubble Bust got underway. So, this means ***the Everything Bubble Bust is now fully emerging as the contagion spreads from a few small companies to truly major US banks.***

That is why in just one day we are already hearing cries for bailouts! Yes, once again, the big money is running to the Fed and Feds for bailouts:

> ***Fears of a broad financial contagion spread on Friday after tech lender Silicon Valley Bank set off alarm bells over liquidity concerns — sparking share losses across the banking sector….***
>
> *New York Post*

First, the run got real, as in right at the bank's doors in old-fashion Great-Depression style:

> ***Earlier in the morning, building managers at Silicon Valley Bank's Manhattan branch reportedly called the police after a group of** tech founders showed up and attempted to pull out their cash**.***

Then regulators shut down the bank to prevent the run from growing:

> ***On Friday, the Federal Deposit Insurance Corp. said regulators***

> ***have shut the bank down to protect insured deposits.***

Well, that escalated quickly! ***So, yes this is a full-on bank run (revise to crash) at a major US bank, right after Jerome Powell assured all of us at his congressional hearing things looked steady for banks .***.. as these things always happen. They are black swans in that no one saw which particular bank was going down, while most people did not see *anything* coming at all. They are *not* black swans in the broader sense that the breakdown of banks under Fed tightening is something I and others have warned about as *clearly coming.*

Just as I just wrote earlier in the week regarding commercial real estate, we have hit that stage where we are suddenly starting to see, as the tide rolls out, what major financial firms are swimming naked. (See, if you missed it, "Real-Estate Bust 2.0: The Commercial Real-Estate Tsunami Has Arrived.")

Not only did the bank get shut down to lock depositors out from making physical withdrawals (and shutdown electronically, of course), but ***the bank's stock trading got shut down today, too, after its stock took an additional 47% plunge from the ending point of its massive 60% cliff-dive yesterday!*** (That is a 79% crash from where it was valued just two days ago!) We're talking major destruction that almost no one outside the bank saw coming at the start of this week, including particularly the Fed.

We never learn

That is how these big bust events happen every time! They burst on the scenes so big that we are already hearing the bailout bastards beg for help again (but "only for the sake of others," of course):

> ***Bill Ackman, the billionaire hedge fund manager, called on the***

> ***US government to step in and bail out Silicon Valley Bank.***

Whether Ackman has any interest in SBV at all, he undoubtedly has interest in other firms that this contagion can spread to or in companies that are dependent on this kind of bank to maintain their funding. That, or he wants government backstops in place for deals he'd love to scarf up. He clearly sees that the trouble here has mushroomed in just twenty-four hours to the point where major intervention by Fed and feds is going to be necessary to stop a rapid cascade:

> "The failure of @SVB_Financial could destroy an important long-term driver of the economy as VC-backed companies rely on SVB for loans and holding their operating cash," Ackman tweeted. "If private capital can't provide a solution, a highly dilutive gov't preferred bailout should be considered."

I'm sure he knows private capital is not going to step in when the stocks are falling 60% one day and then 47% from that point the next day. No one wants to rush into that house of flames without a major Fed backstop like we saw regularly back in the Great Recession — the origin of this blog's rage:

> ***Ackman likened the turmoil engulfing Silicon Valley Bank to the 2008 financial crisis, when the Federal Reserve bailed out JPMorgan Chase after the Wall Street giant bought investment bank Bear Stearns, whose market value was eviscerated due to its involvement in the risky subprime mortgage markets.***

Yeah, taking advantage of that great fire sale resulted in JPMorgan Chase needing to be bailed out later on. Of course, with its major influence in the Fed, JPM Chase could literally bank on that rescue if it scooped up the bargain. Now, we are hearing the calls that went out after Bear Stearns for bailouts telling us to get ready again.

> ***According to Ackman, no other private institution will step in***

> ***to save Silicon Valley Bank the way JPMorgan rescued Bear Stearns.***

Of course not, because they saw what happened when the powerful JPM Chase needed a Fed rescue plan right after bringing Bear-Stearns' cancer into itself. I wrote about how sick all of that was in the following articles that were published by the *Hudson Valley Business Journal* before I started writing this blog: (They are what eventually got this blog started.)

- DOWNTIME Part 15 – Bailout Bonanza Gone Bananas
- DOWNTIME Part 11 – Banking on the Future
- DOWNTIME Part 7 – Things to Do With a Failed Bank
- DOWNTIME Part 6 – Bailing Out the Biggest Bullies
- DOWNTIME Part 3 – Collapse of the Colossus

That's right, this pattern is SO predictable, I laid it all out way back then and ***promised*** it would be coming around in future cycles because the moral hazard created by these bailouts with the constant readiness of the Fed and feds to cower before the toppling of these banks assures the greed of wild speculation will continue, and the rescue plans for the overall economy fuel that rampant speculation. It's how our politicians always underwrite the greediest most-depraved aspects of our capitalist system (a human problem no system is without). My whole reason for writing everything on this blog is to say, "This is what we keep doing. The longterm results of *not* doing differently are *totally predictable*, so we *will* repeat history." I've said that many times, describing what is happening today.

And here we are! We repeated massive bailouts in the government-forced crash of 2020, and we are about to begin to do so again!

Those articles I eventually gathered and combined with other articles from the time and new writings in my first ebook, "DOWNTIME: Why We Fail to Recover from Rinse and Repeat Recession Cycles: The same characters who created bailout bonanzas for banksters in the Great Recession are doing it again. Shall we let them?" That tiny book promised we'd do it all again because, as became a mantra in that book, "We never learn!"

With that background, let us return to today's story and the current bailout beggar:

> "***The gov't could also guarantee deposits*** in exchange for a dilutive warrant issuance and other covenants and protections," Ackman tweeted.

It is the same old garbage all over again, just as I wrote back then we would see happening in each bust cycle to come down the road, in part because all we ever did was make the banks that were too big to fail bigger. We also solved a debt problem by creating massively larger debt at even cheaper rates, which was never sustainable and certain to self-destruct as those rates went away.

> "***After what the Feds did to @jpmorgan after it bailed out Bear Stearns***, I don't see another bank stepping in to help @SVB_Financial," according to Ackman.

What the Feds did to JPM? Are you kidding me? In the last of those articles listed from *long* ago, I wrote about JMP swallowing Bear Stearns as follows:

> ***J.P. Morgan Chase and Company, a name that was already a mouthful of earlier conglomerations, gulped down a belly full of Bear. I guess that would make them the J.P. Morgan, Chase, Bear, Stearns, and Company company. The Federal Reserve helped prepare the Bear to make it more palatable for Morgan to eat. Apparently that role is the meaning behind their***

> ***nickname "Fed." Somehow the Fed thought a dying beast fed on Bear would be an improvement on the "too big to fail" scale.***
>
> ***Fat on Bear, you'd think the beast would have been satisfied for a little while, but within a month it felt the need to digest the largest bank failure in world history — Washington Mutual. Again, the Fed cooked the meal.*** I won't even try to squeeze that addition into J.P.'s burgeoning name, except to say that the feeding frenzy was mutual. And with that, J.P and Companies acquired a bank that was even a different breed from itself. An investment bank consumed a consumer bank.
>
> *"DOWNTIME Part 3 – Collapse of the Colossus"*

And congress and the feds in the Bush government wholeheartedly supported all of that!

What did the Fed with approval of the feds actually do in the end? It made JPM much bigger than ever before! Sure JPM foundered with indigestion after gluttonously eating such a cancerous beast until the rescue came in. Ackman merely wants to see guarantees again that those who rush in to the fire sale will have the Fed and the government fully behind their guaranteed enrichment. Perhaps, he'd like to snarf up a fire-sale bargain for himself AFTER he's assured the Fed and Feds have the situation fully backstopped to take all the risk out of it.

I'm sure the big boys would love to enjoy another feeding frenzy like we had last time:

> ***Others jumped in. Barclays, the British bank with an appetite the size of an empire, digested parts of the Lehman Brothers, pulling off an arm and a leg, according to taste. Bank of America, already a Leviathan, swallowed Merrill Lynch whole and became even bigger and sweatier. It also took the leisure***

> ***to snack on Countrywide Financial Corp. for dessert….***
>
> ***Meanwhile, Well's Fargo, in a fairly strong position, swallowed the wavering Wachovia. Citigroup, once the largest known corporation in the galaxy by market value, buckled under the strains of the current economic load, and also began looking for meat in order to save its fat and floppy body.*** Citigroup and Morgan Stanley have been seen eying each other recently as if they want to marry their large mouths by mutually consuming each other — an obese way of saying merger… because they feel they're just not big enough to survive apart. They were already the biggest artificial creatures in our little neck of the cosmos. For now, they're just sucking on each other's thumbs, but each hoping to bite a thumb off in the short term, while still eying each other adoringly for mutual total consumption.

Yup. These are the times when fat banksters feed like sharks to get fatter off the failures of their competitors … but they want insurance that they won't die of colic or indigestion from eating such internally rotting garbage with all of its buried problems as a path to growing as quickly as cancer can spread.

And we'll let them do it. We always do. If you want to see a clear picture of how all of that played out back then and how I laid out years ago how *it would certainly happen again*, and the how I laid it out in 2020 for what would happen in 2020, which it did, you can read the short ebook that encapsulated the whole escapade for our current times. In the book I also lay out a clear alternate path to a true recovery — a path we've never had the wisdom *or courage* to take because it requires taking the pain up front, instead of pushing it away.

You could see this crisis coming from the other side of the world!

In the meantime, here we are again as was easily predicted based on the Fed's chosen path of interventions and baked-in crashes:

> **Silicon Valley Bank is shut down by regulators in biggest bank failure since global financial crisis**
>
> Financial regulators have closed Silicon Valley Bank and taken control of its deposits, the Federal Deposit Insurance Corp. announced Friday, in what is the largest U.S. bank failure since the global financial crisis more than a decade ago.
>
> ***The collapse of SVB, a key player in the tech and venture capital community, leaves companies and wealthy individuals largely unsure of what will happen to their money.***
>
> *CNBC*

Poor wealthy individuals and long unprofitable zombie tech companies whose failure in the event of Fed interest-rate hikes was predicted here for months ago! Poor, poor zombies and their rich investors who can't see where they will go now without a return to bailouts to stabilize the losses that are resulting from their greedy leveraging and wild speculative risks and all the exuberance they wrongly invested in the stocks of profitless companies … or in any company likely to lose value when the Fed starts tightening the financial system. ***Poor rich people!***

> ***According to press releases from regulators, the California Department of Financial Protection and Innovation closed SVB and named the FDIC as the receiver. The FDIC in turn has created the Deposit Insurance National Bank of Santa Clara, which now holds the insured deposits from SVB.***

Well, that happened quickly, didn't it? I***n less than one week one of the United States' largest banks crashed all the way into receivership … the very same week, in fact, where Jerome***

Powell assured congress there was no apparent bank risk on the horizon because banks were well capitalized with strong reserves.

Do you suppose they will ask him back to smack him on the head??? How many times are we going to listen to this effluent before we fire the Fed?

No chance of contagion, though, right? We've been assured of that by Father Fed, too.

> ***The closure of SVB would impact not only the deposits, but also credit facilities and other forms of financing.***

Oh, well that sounds a little contagious!

Fortunately, we have some familiar heroes watching out for us:

> Treasury Secretary Janet Yellen said during testimony to the House Ways and Means Committee *on Friday morning* that she was "monitoring very carefully" developments at *a few* banks. Yellen made her comments before the FDIC announcement.

Well, thank the devil for her I guess.

Where were her watchful eyes wandering months ago when she was assuring us all was fine?

That is how these guys always fail — assuring us all is fine because they are blind. Congress then anoints these failures to high positions like national Treasurer. That's right: our top watchdog of government treasure is the same person who assured us just before the start of the Fed's quantitative tightening under her direction in 2017 that QT would go on autopilot and be as boring as watching paint dry.

The same people who didn't see the repo crisis coming, which I came to called The Repocalypse, after saying how much worse it

would become than the Fed was letting on in 2019.

The same people who have been assuring us all of this year that banks were "fundamentally sound."

Now the 16th-largest bank in the nation has crashed into government receivership in less than a week!

Yup, sound!

Very sound!

And all of a sudden, there are hints of broader contagion even from Gramma Yellen:

> ***Treasury Secretary Janet Yellen told House lawmakers on Friday,*** "***There are recent developments that concern a few banks that I'm monitoring very carefully***, and when banks experience financial loss it is and should be a matter of concern."

Besides being a "no kidding" statement that is dimmer than a seven-watt lightbulb, let me re-quote the important part:

"THERE ARE A FEW BANKS THAT I'M MONITORING CAREFULLY."

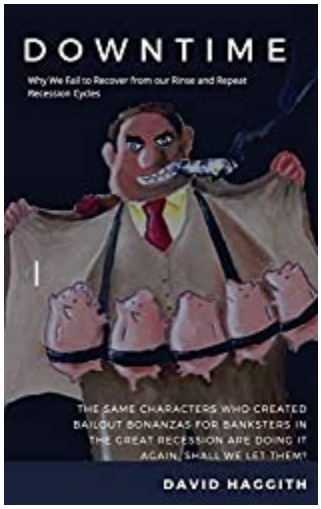
Just a *few*! I wonder if some of them are as big as number sixteen. She says it so casually, so as not to trigger larger alarm, just as she casually told us all year that all banks appeared to be on a strong footing. Gee, what will we wake up to on Monday? We all remember how the Fed liked to orchestrated its greatest bailouts in secret with the full help of the Treasury on weekends!

> ***"The issue here is what is the domino effect of problems outside the banking industry on the banks themselves?"*** Mike Mayo, a bank analyst at Wells Fargo Securities said Friday, before regulators announced SVB's closure. ***"Banks are still the heart of the economy, and if there's issues, then banks are going to***

feel it."

No kidding. In other words, problems like this impact the zombies, which have accounts at other banks, which impacts those banks. So, on it spirals.

Thank anyone but God (because why blame God?) we have someone vigilantly asleep at the switch like Yellen! She has so much experience at sleeping through these things. Now, do we have a populace that will finally start yellen, "NO BAILOUTS!" If you want to see how that can work to force the greedy to fully absorb the pain while minimizing collateral damage to all the bystanders, you can read the book where the plan is succinctly laid out … *after* it fully lays out the predictable problem from the repeated past so you can understand *why* the alternate solution is necessary:



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