



A BANK COLLAPSE LEAVES TECH INDUSTRY FOR AN EXPLANATION

Roughly two month ago, we issued a paper about VC funding slide in 2022 and a difficult 2023 to expect.

The SVB collapse is worsening the situation exponentially. The bank worked with more than half of all U.S.-based startups and is the preeminent provider of venture debt in the industry. Its collapse leaves open gaping questions among startups about cash flow and access as bank regulators moved in.

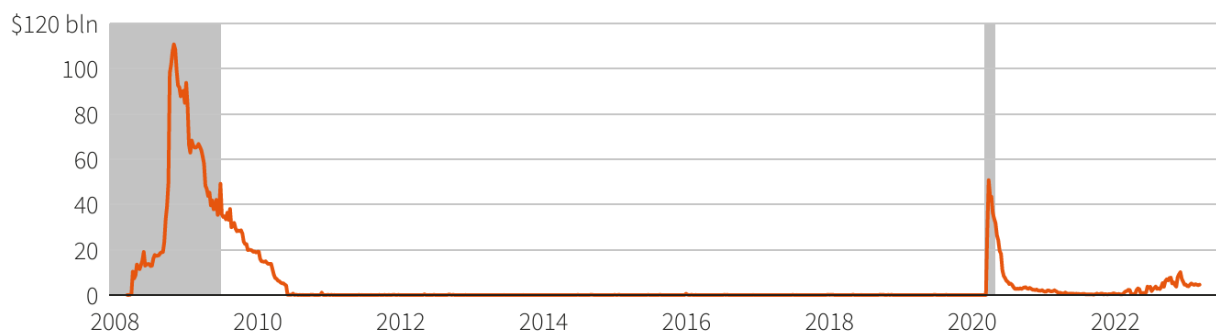
The bank held \$175.4 billion in deposits as of Dec. 31, and 93% of those were uninsured, according to regulatory filings. That left unresolved (for 48h) how thousands of companies in Silicon Valley's intricately connected tech sector who banked at SVB and were unable to access their deposits will make payroll or pay vendors and rent, if those funds remain inaccessible. But the Treasury, the Fed and the FDIC stepped in and „only“ bond&equity holders will have a difficult time to recuperate their money. If at all.

At this point it might become interesting to have a look at the whole picture:

The Discount Window

Use of the Fed's 'Discount Window' where banks borrow funds directly from the central bank had shown no signs of increasing in the weeks before Silicon Valley Bank's collapse. It saw extensive use during the 2007-2009 financial crisis and during the start of the COVID-19 pandemic in early 2020.

— Fed Discount Window borrowing



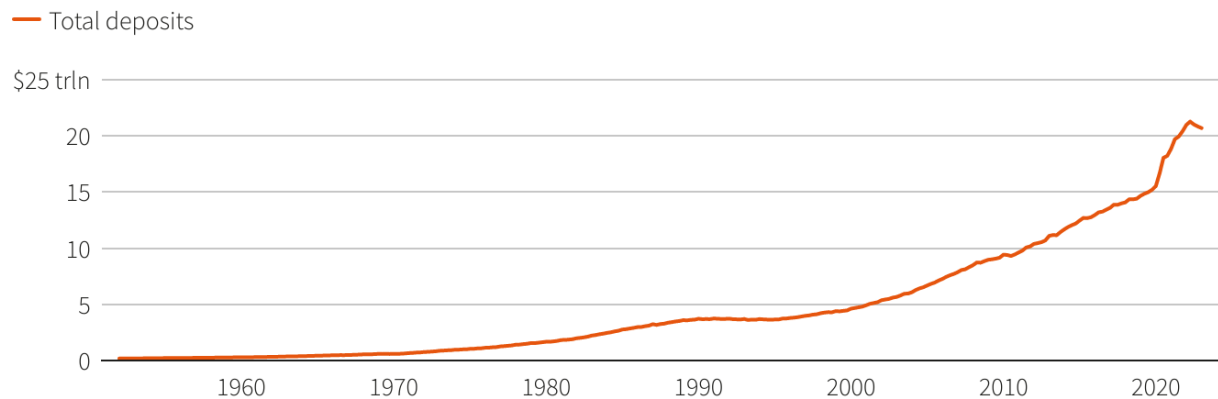
Note: Gray bands are recessions

Source: U.S. Federal Reserve



Total deposits in the U.S. banking system

Total deposits exceed \$20 trillion and rose dramatically in 2020 and 2021 from federal government emergency relief payments to shield households and businesses during the COVID-19 pandemic.

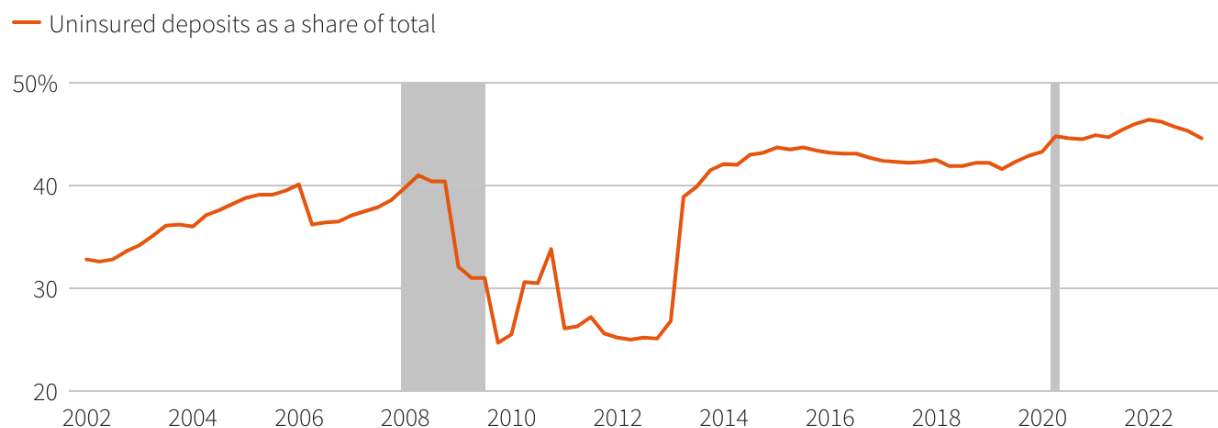


Note: Figures are the sum of checking, savings and time deposits at U.S.-chartered depository institutions, foreign banking offices, banks in U.S.-affiliated areas and credit unions

Source: U.S. Federal Reserve

Uninsured deposits as a share of all U.S. deposits

About 45% of all deposits at U.S. banks and credit unions are uninsured by federal regulators because those accounts exceed the \$250,000 per depositor limit.



Note: Gray bands are recessions

Source: U.S. Federal Reserve



Wall Streeters are likely still to brace for more contagion despite the extraordinary measures, while at the same time trying to convey messages this is not Lehman Brothers circa 2008/2009.

A lot of media will try to tell you this is a risk to the entire system but we do not believe it.

The big banks are incredibly well capitalized and the market even told you that on Friday with JP Morgan, Citi, Bank of America and Wells Fargo all having uneventful days in the market.

This will be a one (or possibly a few more)-off situation where a bank made a mistake with buying longer term mortgages to push for yield and with a concentrated deposit base that was incredibly loyal until they were not. **It's a classic mismatch of assets and liabilities.**

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