March 2023

Update: Silicon Valley Bank.

Silicon Valley Bank is the most significant of the three regional banks (all focused on aspects of the technology sector) that failed over the past week. The Federal Reserve announced an emergency loan program to stem further contagion to other regional banks. SEI does not anticipate widespread contagion to the traditional banking sector, although stock price volatility is likely to continue in the short term.

A rapid fall

Silicon Valley Bank (SVB) lost $9.4 billion in market value on Thursday, March 9, with its shares plummeting over 60% in trading. The troubled lender had struggled with large portfolio losses, specifically within U.S. Treasury and mortgage-backed securities positions, as the Federal Reserve continues to raise interest rates, reducing the value of many fixed-income investments. Amid this pressure, several venture capital firms recommended that their portfolio companies remove their cash from the troubled lender, compounding the stresses facing SVB and culminating in a classic bank-run scenario.

On Friday, March 10, the Federal Deposit Insurance Corporation (FDIC) was appointed as receiver to SVB after it was closed by the California Department of Financial Protection and Innovation. Coming on the heels of the collapse of Silvergate Capital, a major lender to the cryptocurrency industry, the failure prompted investors to reconsider the safety of their positions across the banking industry.

SVB is a unique entity, with a client base highly concentrated among startup, venture capital-backed companies. The deposits of the bank increased tremendously over the past few years and poor liquidity management of these assets appears to have been a significant contributor to the collapse. Silvergate Capital and Signature Bank were closely aligned with the crypto industry, an area we view as purely speculative. While there can be many catalysts for a market downturn, we do not see this event as systematic or reflective of issues within the broader banking industry.

Our view

While we recognize the severity of three bank closures in a short period of time, we continue to believe the current situation reflects the idiosyncrasies of the banks in question as opposed to broader troubles in the US banking sector. SVB, for example, had a highly concentrated customer base among early stage technology and healthcare companies. In addition, SVB maintained a relatively high amount of loans plus securities as a percentage of its deposit base; a deposit base which was notable for its low percentage of more stable, retail customers. These characteristics created tremendous pressures in a period of unprecedented rising interest rates and a downturn in Venture Capital funding. Withdrawals were elevated at a time when marked to market losses on securities held were significant. In contrast, the Tier 1 capital ratios of US Banks remain broadly robust even after accounting for marked to market losses on held to maturity assets. This doesn't even consider the new Bank Term Funding Program (BTFP) put in place by the Federal Reserve Board Sunday evening. The Federal Reserve announced that "The BTFP offers loans of up to one year in length to banks, savings associations, credit unions, and other eligible depository institutions pledging U.S. Treasuries, agency debt and mortgage-backed securities, and other qualifying assets as collateral." These assets will be valued at par. The BTFP will be an additional source of liquidity against high-quality securities, designed to eliminate an institution's need to quickly sell those securities in times of stress. In short, we see the broader pressures on the banking sector as reflective of short-term fear as opposed to longer-term fundamentals.

While our funds' equity holdings of the banks closed over the past few days were modest, we do expect some short-term performance headwinds given the volatility in the Financial sector and, more specifically, the banking sub-sector. Our equity portfolios in particular have, on average, an overweight in financials as part of our Value positioning. Our Value holdings have broadly been reduced over the past year but remains a key position across our funds. We remain active in all of our portfolios and will continue to assess the situation as it unfolds. We do however, remain confident in our positioning and in our abilities to deliver exceptional investment performance for our clients.

SEI's portfolios

SEI's equity portfolios had little direct holdings to SVB Financial Group (Ticker: SIVB), SVB's holding company. Equity holdings in SVB Financial Group as of February 28, 2023 are shown below. Since SVB subsequently failed, the equity portfolios' holdings in SVB Financial Group is now effectively 0.00%.

SEI Fund	Portfolio weight	Benchmark weight	Active weight
SGMF Dynamic Asset Allocation Fund	0.03%	0.03%	-0.01%
SGMF Factor Allocation Global Equity Fund	0.06%	0.03%	0.03%

- Source: seic.com/holdings

Important information