Jitters over health of US banks spark global stock market sell-off

Stock markets have gone into sharp retreat globally, including in the UK, over concerns for the health of US banks in the tougher economy.

Wall Street banking stocks bled $80bn of value on Thursday afternoon after trouble at two Californian banks.

First, a major crypto-focused lender called Silvergate announced it was winding down after big losses related to the collapse of the FTX exchange last year.

SVB Financial Group, parent of startup-lender Silicon Valley Bank, then revealed a share sale to shore up its balance sheet due to declining deposits from clients struggling for funding.

It noted a higher-than-expected “cash burn” and rising cost of capital.

SVB stock lost 70% of its market value while shares of big US banks were dragged down with it, such as JPMorgan Chase, which ended the day more than 5% lower.

Image:
Silvergate only went public in 2019 but has suffered big losses following the collapse of the FTX exchange. Pic: AP

Banking and other financial stocks in Asia and Europe followed in Friday deals.

Credit Suisse stock hit an all-time low while Deutsche Bank fell 8%.

In London, HSBC and Standard Chartered led the FTSE 100 down at the open – in a broad-based sell-off that also hit hard other sectors such as insurers and investment funds.

The UK-listed banks all slid by around the 4-5% mark in early trading, taking the FTSE 100 index more than 150 points, or 2%, lower at one stage in choppy trading.

RJ Grant, head of trading at Keefe, Bruyette & Woods in New York said of the spark: “The Silicon Valley raise got everybody nervous about people’s capital levels and what deposits are doing.

“A lot of institutional investors don’t feel great about owning certain banks right now.

“It just gets people freaked out because Silicon Valley, historically has been a very strong, well-run bank. If they’re having issues right now, people are wondering what about other banks that are lesser quality and that don’t have the reputation that Silicon Valley Bank has.”

ING economist Rob Carnell said: “I think there’s speculation that there are wider problems within the US banking system, or there’s that potential.”

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Investors were fretting more widely about the impact of rising interest rates, given signals from the chair of the US Federal Reserve during the week that it was far from ending its cycle of interest rate hikes to cool inflation.

While that would normally be supportive of banking stocks, they are holders of US treasuries and mortgage-backed securities which were bought at rock bottom prices and have now soared due to rising rates.

Market experts said the widespread sell-off of banking stocks followed SVB’s $2.25bn capital raise, which was in response to a $1.8bn loss on the sale of a portfolio marked at $21bn.

The portfolio included US treasuries and mortgage-backed securities.

Neil Wilson, chief market analyst at markets.com, said he did not see the reaction as a Lehman Brothers moment marking any kind of financial crisis.

“SVB does not represent the wider US banking sector, albeit the plummet in SVB stock clearly hit sentiment,” he noted.