Silicon Valley Bank UK distances itself from global market chaos related to US namesake

The future of a respected US lender has taken centre stage as banking and other financial stocks globally take a beating over concerns about their ability to handle the rising cost of money.

Share trading in SVB Financial Group, parent of major startup-lender Silicon Valley Bank, was halted on Friday after a second consecutive day of heavy falls amid reports it was looking to secure an emergency sale.

The turmoil prompted its UK namesake, SVB UK, to confirm it was not affected by the chaos as it operated as a “standalone, independent banking institution”.

“Silicon Valley bank UK has been an independent subsidiary since August 2022 with a separate balance sheet to the SVB Financial Group and an independent UK Board of directors”, it explained in a statement to Sky News.

The trouble began in the US on Thursday afternoon when Wall Street banking stocks bled $80bn of value after SVB and another California-based bank revealed distress.

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.

Then, a short time later, SVB disclosed a share sale to shore up its balance sheet.

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 Thursday trading 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 sell-off that also hit hard other sectors, such as insurers and investment funds.

Ocado’s potential exposure to tech funding woes saw it head the fallers by the close – down by 6.5%.

The FTSE 100 shed 1.7%, or 131 points, to end the week on

7,748 points.

Trading in SVB shares was halted on Friday following a further 66% plunge in premarket trading amid reports of a high withdrawal rate on deposits.

Sky's colleagues at sister news operation CNBC reported that the company was in talks on its options, including the possibility of a sale, because its attempts to raise capital had failed.

SVB was yet to comment.

Market experts said the widespread sell-off of banking stocks followed SVB's attempt to raise $2.25bn, 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.

Investors have been fretting for months about the impact of rising interest rates, latterly following 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, holders of US treasuries and mortgage-backed securities – such as major financial services firms – are facing pain because substantial volumes were bought when interest rates were at rock bottom levels.

The broader picture for US stocks on Friday was more stable, despite several banks suffering big hits, after a crucial employment report indicated that domestic hiring and wage growth had slowed substantially in February.

That data took some sting out of fears related to future rate rises.

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

“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.”

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.

Russ Mould, investment director at AJ Bell, said the irony of losses on allegedly safe US Treasuries at SVB was not lost on market participants.

He added: “This leaves investors wondering who is exposed to whom and they are taking no chances as they sell banking stocks left, right and centre.”