nuveen
A TIAA Company

BREAKING NEWS
13 March 2023

Update: Silicon Valley Bank

Nuveen has very modest holdings of Silicon Valley Bank, which collapsed Friday after its parent spooked customers with news that it had sold bonds at a substantial loss and was seeking additional capital. Total, direct holdings across all of Nuveen's fixed income and equity accounts was approximately $112.8 million, or less than 0.01% of total AUM. Nuveen Real Estate also has a $50 million credit line from the bank that is 36% drawn and set to expire in May. Here is additional context about the bank failure, our exposure and our outlook on the broader banking sector.

WHAT HAPPENED?

Silicon Valley Bank was not performing well because of its heavy concentration of venture capital firms and early-stage tech customers that had been withdrawing funds at a higher-than-expected rate for several quarters to finance their businesses. In response to these depositor outflows, the bank liquidated some holdings to reinvest in securities with potentially higher returns.

Silicon Valley Bank-parent SVB Financial last Wednesday evening said that it had sold securities from its portfolio for a $1.8 billion loss and was seeking to raise $1.25B in capital via an offering of common and preferred stock. Moody's downgraded the bank and assigned it a negative outlook, and S&P followed suit. Spreads on SVB bonds widened substantially, and the bank's stock plunged.

SVB's actions and the negative outlook from the ratings agencies sparked a run on the bank. As depositors rushed to withdraw their funds, the FDIC moved to take over the bank and halted withdrawals.

WHAT IS OUR OUTLOOK FOR BANKS?

On March 12th, Treasury Secretary Janet Yellen instructed the FDIC to guarantee SVB customers will have access to all of their money starting Monday. Yellen commented, "By guaranteeing all deposits – even the uninsured money customers kept with the failed SVB bank – the government can ensure public confidence in America's banking system." We expect this action to curtail the risk of contagion in terms of additional runs on banks.

However, we expect a much tougher landscape for U.S. banks with more competition for deposits and tighter regulations around capital/liquidity requirements. While rising interest rates have indeed negatively impacted fixed income investments on bank balance sheets, those same banks have also benefitted from a rise in net interest income since the Fed's tightening program began. Recently, there has been increasing pressure to raise deposit rates, which makes the incremental profitability of future higher rates less accretive to the bottom line. But in general, bank balance sheets remain incredibly well-capitalized, and banks continue to perform well year-after-year on the Fed's annual stress tests. So, while we remain constructive on banks from a credit perspective, our outlook for bank equity is not as compelling.

WHAT IS NUVEEN'S EXPOSURE TO SVB?

The FDIC has made it clear that depositors will have preference on the assets of the operating company, leaving uncertainty about recovery values for debt issued by the holding company. Furthermore, any remaining capital at the holding company level will be applied to senior debt first and then to preferred securities. Nuveen maintains a modest direct exposure to SVB debt and equity across its $1.1 trillion investment platform and generally had underweight positions relative to the benchmark in its dedicated preferred security strategies.

As of the evening of March 12th, the situation remains quite fluid. We will provide updates to our clients as material developments unfold.

For more information, please visit us at nuveen.com.

Endnotes

Sources

GWP-2789068CG-Y0323P