A Tale of Two Banks

April 2023

George Muzinich
Founder and Executive Chairman

In the space of a few weeks two iconic symbols of finance self-destructed.

Silicon Valley Bank (SVB) represented the bold new face of finance. It gave financial life to startup companies. It was there where other banks feared to tread. It was the banking life and soul of early-stage companies. It was comfortable dealing with entrepreneurs because it was an entrepreneurial bank. It was the banking version of the new economy.

At the other end of the spectrum was Credit Suisse, a 167-year-old institution that represented the financial solidity and probity of Switzerland. It was a serious institution, almost as representative of the country as the cross on the Swiss flag. The hard-working burghers of Switzerland could count on it, rain or shine. It survived financial panics, two world wars and, unlike UBS, did not need to be bailed out by the Swiss government in 2008. It was stability incarnate, a trustworthy institution.

How could this have happened? How could both these banks, one so dynamic and one so traditional, just disappear all of a sudden. Many explanations will come forth, many technical considerations will be discussed, many regulations will be examined but in the end the problem was poor management and a lack of common sense.

SVB's liabilities were short-term and its assets, although liquid, were long-term. Its deposits came from a relatively narrow range of newly wealthy depositors. As interest rates rose and the economic outlook declined, depositors started taking money out to fund their cash flow negative companies' operations. Management didn't want to take a loss on their treasury bond portfolio. Regulators had on multiple occasions warned management of its severely unbalanced book of business. Management, which had an almost willful disregard of the basic tenets of banking, ignored the warnings.

Credit Suisse management wanted the profits and thrills of investment banking. It sought relevance in a world that was not its own. It had strayed into a savannah populated by creatures of a different world. It had bought First Boston, which previously had bought the even more hard charging Donaldson, Lufkin & Jenrette.
They admired these animals who were colorful, who prowled silently, who pounced swiftly, who were smooth and had an elegance of motion that beguiled those who were grey suited and slow of action.

Each had an arrogance. One had never become rooted in banking. The other had lost its roots in its banking tradition. Each lacked what the other had in abundance. Perhaps such is the nature of human experience.

Money now moves almost instantaneously. Will we need guarantees of all deposits to prevent bank runs? Who knows? Something new and something old have now gone. An epoch has passed, and so has our eroding belief in many things financial.

Important Information

Muzinich and/or Muzinich & Co. referenced herein is defined as Muzinich & Co., Inc. and its affiliates. Muzinich views and opinions. This material has been produced for information purposes only and as such the views contained herein are not to be taken as investment advice. Opinions are as of date of publication and are subject to change without reference or notification to you. Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy. The value of investments and the income from them may fall as well as rise and is not guaranteed and investors may not get back the full amount invested. Rates of exchange may cause the value of investments to rise or fall. Emerging Markets may be more risky than more developed markets for a variety of reasons, including but not limited to, increased political, social and economic instability; heightened pricing volatility and reduced market liquidity.

Any research in this document has been obtained and may have been acted on by Muzinich for its own purpose. The results of such research are being made available for information purposes and no assurances are made as to their accuracy. Opinions and statements of financial market trends that are based on market conditions constitute our judgment and this judgment may prove to be wrong. The views and opinions expressed should not be construed as an offer to buy or sell or invitation to engage in any investment activity, they are for information purposes only.

This discussion material contains forward-looking statements, which give current expectations of a fund's future activities and future performance. Any or all forward-looking statements in this material may turn out to be incorrect. They can be affected by inaccurate assumptions or by known or unknown risks and uncertainties. Although the assumptions underlying the forward-looking statements contained herein are believed to be reasonable, any of the assumptions could be inaccurate and, therefore, there can be no assurances that the forward-looking statements included in this discussion material will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation that the objectives and plans discussed herein will be achieved. Further, no person undertakes any obligation to revise such forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

United States: This material is for Institutional Investor use only – not for retail distribution. Muzinich & Co., Inc. is a registered investment adviser with the Securities and Exchange Commission (SEC). Muzinich & Co., Inc.'s being a Registered Investment Adviser with the SEC in no way shall imply a certain level of skill or training or any authorization or approval by the SEC.

Issued in the European Union by Muzinich & Co. (Ireland) Limited, which is authorized and regulated by the Central Bank of Ireland. Registered in Ireland, Company Registration No. 307511. Registered address: 32 Molesworth Street, Dublin 2, D02 Y512, Ireland. Issued in Switzerland by Muzinich & Co. (Switzerland) AG. Registered in Switzerland No. CHE-389.422.108. Registered address: Tödistrasse 5, 8002 Zurich, Switzerland. Issued in Singapore and Hong Kong by Muzinich & Co. (Singapore) Pte. Limited, which is licensed and regulated by the Monetary Authority of Singapore. Registered in Singapore No. 201624477K. Registered address: 6 Battery Road, #26-05, Singapore, 049909. Issued in all other jurisdictions (excluding the U.S.) by Muzinich & Co. Limited. which is authorized and regulated by the Financial Conduct Authority. Registered in England and Wales No. 3852444. Registered address: 8 Hanover Street, London W1S 1YQ, United Kingdom. 2023-04-12-10662