Largest Commercial Bank Run In Half Century Underway Right Now

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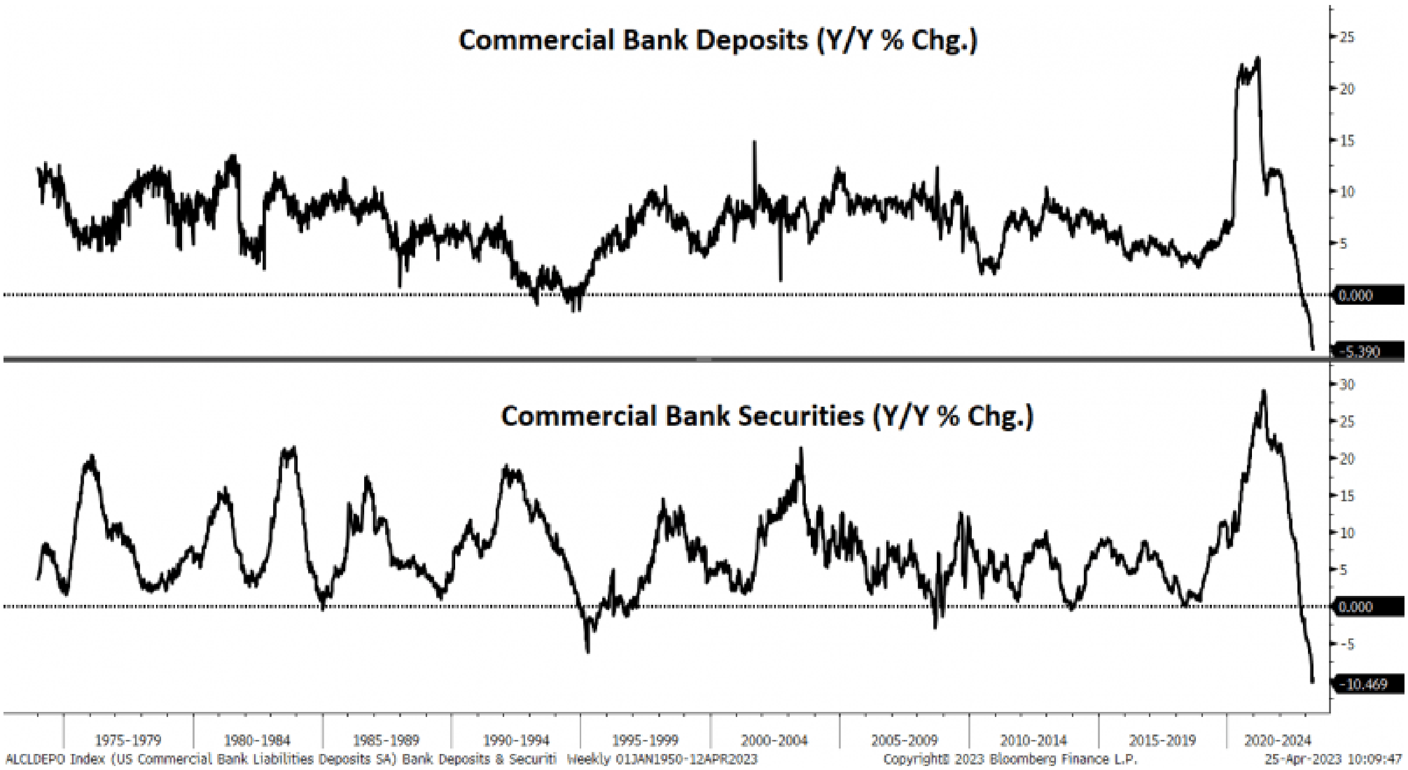
Summary

- The biggest deposit flight we have seen in 50 years from commercial banks shows no sign of stopping.
- Fed Chairman Powell is exacerbating the issue with every rate hike he makes given US 3-Mo T-bills yield nearly 4.75% above the average FDIC savings rate, creating a massive incentive to continue to pull one’s savings from commercial banks and move it to money market funds and T-bills.
- From March 2022 to March 2023, the US paid over $811 billion in interest payments and will quickly be approaching $1 trillion in annual interest payments shortly, doubling the government’s interest expense in just two years.

Artit_Wongpradu

Anyone arguing that we are not heading into a recession may be deluding themselves. **The biggest deposit flight we have seen in 50 years from commercial banks shows no sign of stopping.** Why is this important? Well, commercial bank deposits peaked at $18.158 trillion on 04/13/2022 and last week hit a low of $17.179 trillion, falling $979 billion in one year, with the bulk of that occurring between late February and now. On an annual basis, total US commercial bank deposits are down 5.4% year-over-year (YOY) which is the largest annual decline in the history of the data going back to the early 1970s. This in turn is forcing banks to halt loans and liquidate their mortgage-backed securities and US Treasuries to meet deposit redemptions. Bank security holdings peaked on 02/23/22 at $5.846 trillion and now stand at $5.222 trillion, down $624 billion, and down 10.5% YOY.



Source: Bloomberg, Financial Sense Wealth Management

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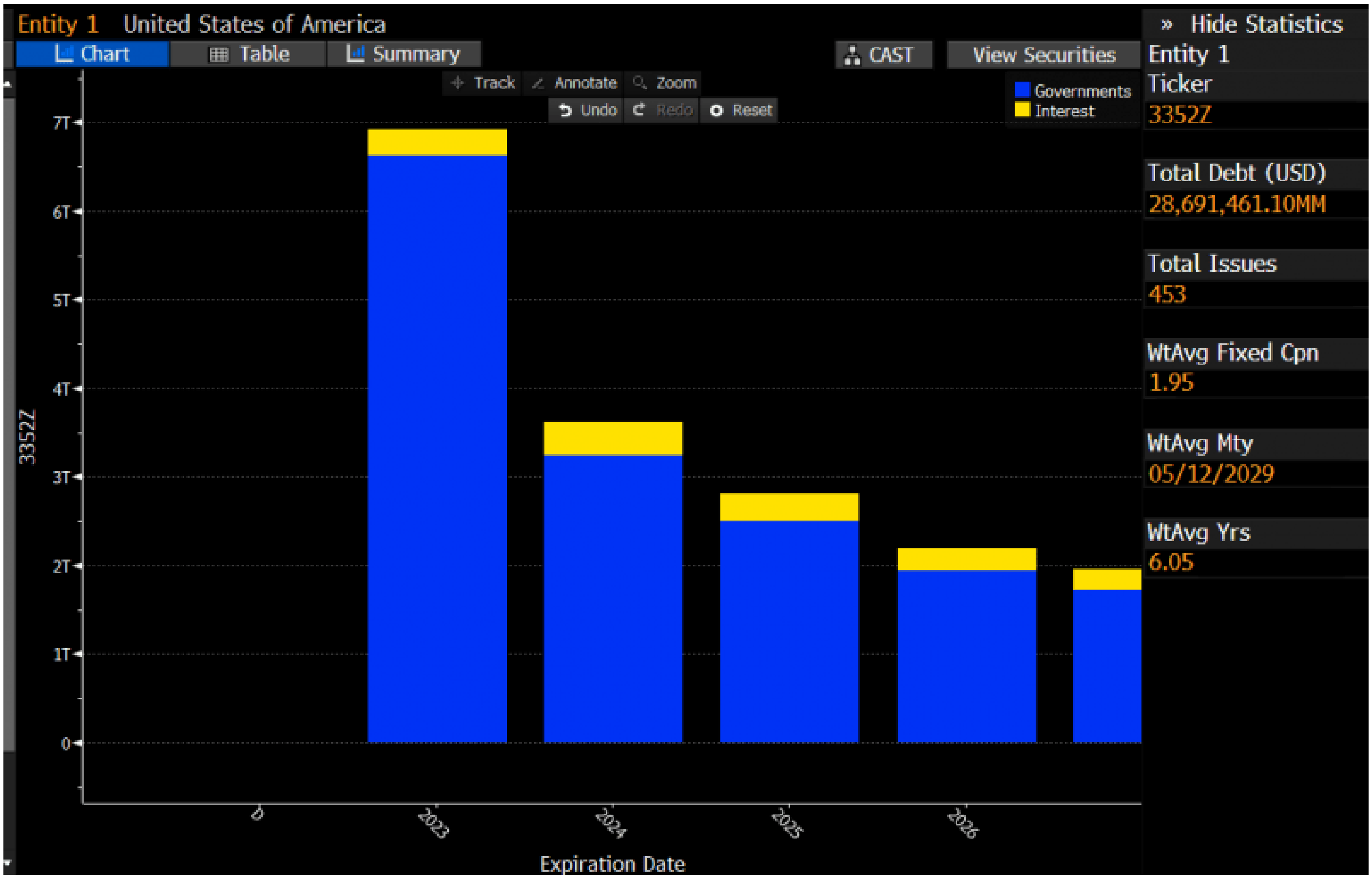
Further, the higher rates rise and stay there the greater the amount of interest the US will be paying on its debt. The US has $28.7T in outstanding debt with a weighted-average coupon of 1.95%. As almost $7 trillion matures this year and over $3 trillion matures next year, a significant amount of debt will reset at higher rates, leading to a substantial rate shock for the US Treasury.



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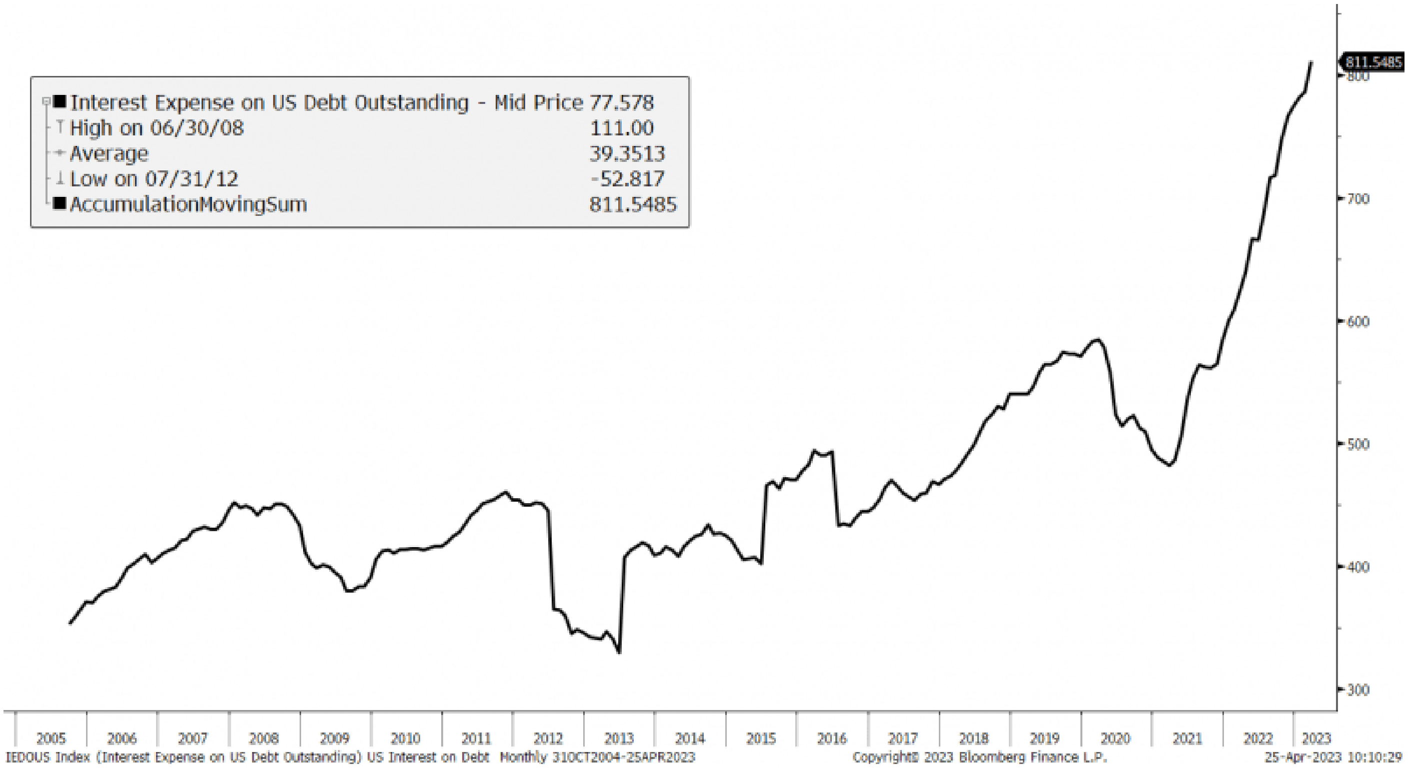

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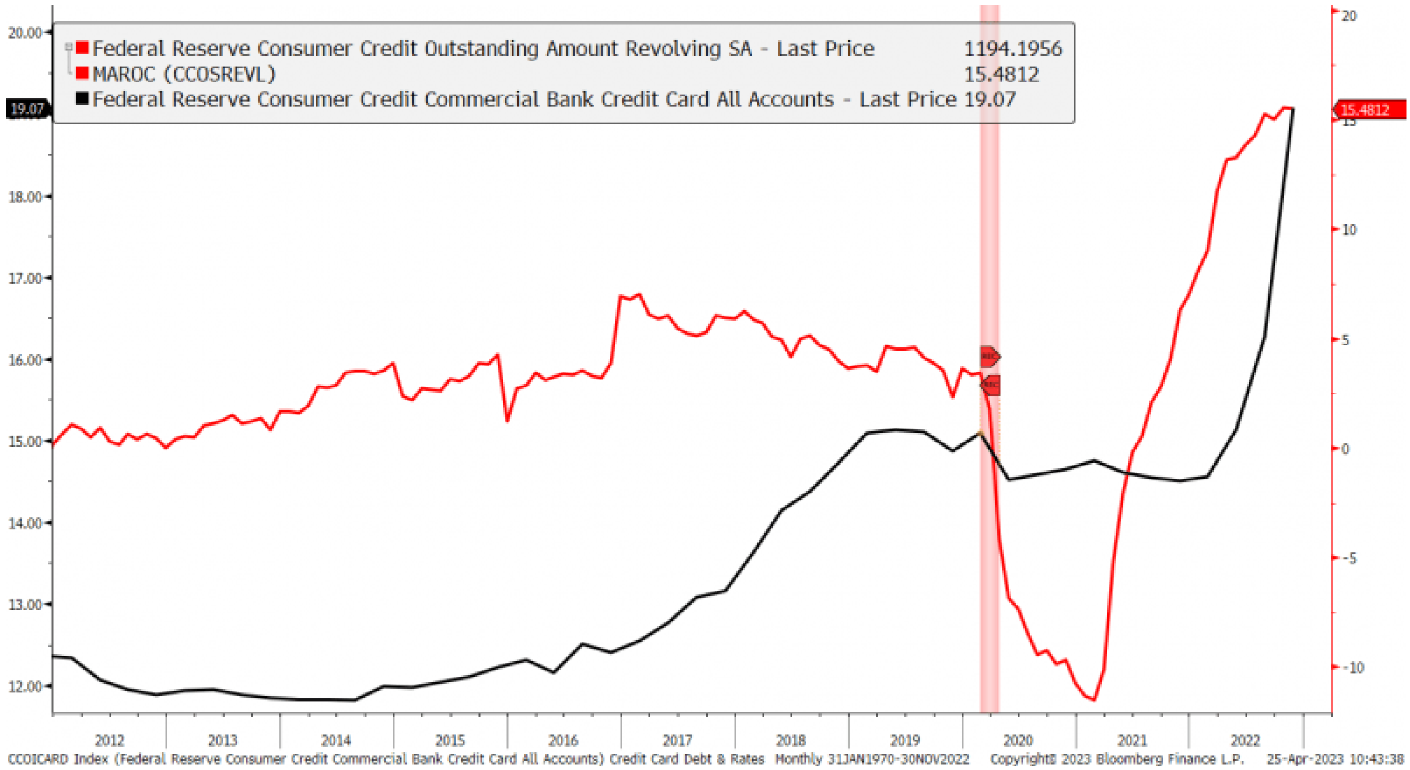
As consumers exhaust their pandemic savings, they are turning to credit cards which are showing an annual growth rate of nearly 15.5% (red line) over last year which is problematic given credit card interest rates are at record levels (black line) of over 19%, an all-time high with data going back to the 1970s.



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The above is why we continue to maintain a defensive posture for our clients and believe the rally observed after the October 2022 lows is merely a bear market rally and not indicative of a long-term upward trend.

Original Post

Editor's Note: The summary bullets for this article were chosen by Seeking Alpha editors.

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