Hi, I'm Erica Ramirez, founder of Ili and host of What About Your Friends, a brand new show on the Ringer podcast network dedicated to the many lives of friendship and how it's portrayed in pop culture.
Every Wednesday on the Ringer Dish Feed, I'll be talking with my best friend, Stephen Othello, and your favorites from within the Ringer and beyond about friendships on TV, in movies, pop culture, and our real lives.
So join me every Wednesday on the Ringer Dish Feed where we try to answer the question, the LC asked back in the day, what about your friends?
Today we're back to the news of the week that is Silicon Valley Bank and the death of Silicon Valley Bank and the banking panic that it almost sparked.
I had a huge, huge wind up to my last episode where I broke down everything that I thought was responsible for the death of Silicon Valley Bank.
Short wind up today, we are bringing back the economic round table, Michael Batnick and Ben Carlson of Ritholt's Wealth Management.
They are the co-host of the Animal Spears podcast.
And in this episode, we basically comb through the hot takes.
And there are a lot of very, very bad hot takes out there right now about what this bank death meant, what caused it, what the lessons should be for banking and regulation going forward.
This is a fun one.
I'm Derek Thompson and this is plain English.
Back by popular demand, the economic round table, Michael Batnick, Ben Carlson, welcome back to the show.
Thank you.
Glad to be here.
All right.
Let's talk about Silicon Valley Bank myths, lies, nonsense.
I am interested first and foremost in teasing apart the good takes and the bad takes in terms of why what happened happened.
And I first want to talk about the phenomenon of Zerp, a zero-interest rate policy from the Federal Reserve.
One of the themes, I think, that have emerged from the last year, 15 months, has been that lots of things that we thought were the wave of the future were, in fact, what I would call LURPs, low-interest rate phenomena.
We are living in the ashes of a LURP economy.
We thought that all sorts of tech phenomena like the rise of Peloton, streaming, clearly taking over the world as a profitable business model entertainment, that these were the wave of the future, and they turned out to be low-interest rate phenomena.
We thought crypto was going to take over.
That turned out to be a LURP as well.
Metaverse, maybe that's a LURP as well.
And Silicon Valley Bank, it seems to me, was sort of caught lurping.
They had a bunch of depositors that were early-stage tech guys.

They had a bet that depended upon low-interest rates.
This bet on held to maturity securities.
One big question that I have for you, Ben, let's start with you.
How much of what we're looking at when it comes to the death of SBB is simply the latest chapter of a book called The 2010s, a LURP story?
Well, if you look at Silicon Valley Bank in the pre-pandemic days, at the end of 2019, it was like an $11 billion market cap.
By the end of 2021, it was $44 billion.
This thing was a bank.
These things should be boring dividend paying.
They're not supposed to be these crazy moonshots.
This bank quadrupled in value, and it was trading like it was crypto or the Metaverse or some sort of tech startup.
That shouldn't happen in something as boring as the banking system.
And obviously, people were assuming, okay, this party is never going to end.
And to your point, a lot of it was just low interest rates, and because the Fed just pulled the rug out on everyone and went from zero to 60 or 60 to zero so fast, I do think that there are a lot of people who had this paper wealth that thought it was just going to keep growing forever and ever, and that raising interest rates put an end to that very quickly.
Michael, there's a bit of a debate about whether the most important contributor to the demise of Silicon Valley was the depositor side.
The fact that their depositors were an ecosystem of early stage tech startups who were talking to each other, who might have had a herd mentality when it came to pulling out their money and who were also very vulnerable to a rise in interest rates, which shut down the VC spigot, or whether they sealed their fate by placing this $80 billion bet on long-term securities that were a bet that was destroyed that I think lost $15 billion when interest rates started to rise.
Can you look at the death of SVB?
Do you think it's sealed its fate more on the depositor side or on the asset side?
All right.
This is a very good question.
To Ben's point, this is a live by the sword, die by the sword type of situation.
Silicon Valley Bank was a huge beneficiary of what you're referring to as LARP.
If you were a venture-backed startup, there was a one and two chance that you banked at Silicon Valley.
The question of whose fault is this?
Everyone's trying to point fingers, and you need to be like Eniga Montoya, oh, no, the guy that killed his father.
I'm sorry.
You need like six fingers to point at all the people that are to blame.
You've got first and foremost the Fed.
I think they are probably at the epicenter of this.
What do we mean by that?

The Fed took interest rates to zero, appropriately so, and they left them there for way too long.
They left them there for two years.
Even as inflation was over 6%, they still weren't raising rates.
They were way behind the curve, and they allowed this bubble to get blown into the venture capital ecosystem, which was averaging something along the lines of $300 billion worth of financing for these companies.
In 2021, that was $600 billion, and all of that went into Silicon Valley Bank.
The problem is that these companies were so flushed with cash that the banks didn't need to make loans.
They needed to manage their deposit or money.
They did so with various interest rate and yielding securities.
Then you go to the point of like, well, did the bank completely blow it?
Is it their fault?
Probably.
Is it the fault of venture capital for funding all these companies?
Well, what were they supposed to do?
They're getting the money in from LPs, from investors.
They had to fund these companies.
Then wait a minute.
What about the regulators?
What is their culpability in all of this?
The auditors, KPMG just gave McLeod the help, and the analysts, JP Morgan had an overweight on the bank.
There's so many people to fault and point fingers to the venture capitalists for pulling the rug and saying, get your money out.
Okay.
But there's also a bigger culprit, and it's the pandemic.
I know you spent a lot of time talking about the meteor, not the ripple, the meteor into the Pacific Ocean that was the pandemic.
That is what started all of this, and I think it's really easy to forget this.
We're going to talk more about in-depth about, but it started with the pandemic first and foremost.
After the pandemic, the Fed doesn't keep rates at zero for too long.
It doesn't go from zero to 475 basis points in 12 months, which is the fastest hiking cycle ever.
None of this happens without the pandemic.
The 21st century has really been a century of meteorites striking the heart of the Pacific Ocean because there were stories you could tell in 2018, 2019, whether you were looking at the expansiveness of houses and metros, you're looking at things like the rise of what I called the millennial consumer subsidy, the fact that there were all these companies like Uber and DoorDash that were essentially paying 30-year-olds to order hamburgers and have them delivered to their home with an incredible deal.
My argument was, we're looking at the ripples of the financial crisis.

Everything that we're describing when it comes to the shortage of housing or whether it comes to all of these weird consumer tech companies, all this stuff is still coming out of the legacy of the financial crisis, the financial crisis which crushed construction, which brought interest rates down, that made these millennial consumer subsidy kind of companies possible.
That was a meteorite.
Now, I totally agree with you, Michael.
I think that there's so much of what we're looking at that are ripples spilling onto the shore of the pandemic.
Now, you mentioned the fact that the Fed might be to blame for this.
I don't necessarily disagree with you, but Ben, this is where I want to bring you in.
There are a lot of people, Ahem, David Sacks, all in podcast, who are explicitly blaming the Federal Reserve almost uniquely and in isolation for this crisis.
This is not Christopher Guest, the six-fingered man in The Princess Bride.
This is just someone with one big claw finger.
That doesn't make any sense to me considering the Silicon Valley Bank's president, Greg Becker, was sitting on the board of these San Francisco Federal Reserve.
I don't understand how you can make and fail to hedge a bet that depends upon low interest rates.
When you have the front row seat to the agency in charge, the institution in charge of raising interest rates, Ben, what am I not seeing here?
What was Greg Becker looking at?
It is true.
Your plan rests on the lowest interest rates in history staying there forever.
That's probably not a good bet.
The interest rates were so low, we've never seen that before.
If your bet is, oh, let's just lock these in for 10 years and we'll be fine, obviously, the bank is to blame.
There was plenty of executives at other banks that did just fine through this to Michael's point.
The Fed went from, it was a 25-mile-per-hour speed limit, and the Fed was Vin Diesel doing the nitrous stuff in his Fast and Furious car.
Then they slimmed the brakes on and caused a traffic backup.
The Fed, I don't think they realize the unintended consequences of the speed of their hikes, but it's also true that why didn't this happen to other banks?
There's plenty of other banks that did just fine.
Greg Becker was in the car.
He was a driver of this car.
He was Paul Walker.
He was Paul Walker, right, exactly, if he's not Vin Diesel.
This is what I truly just don't understand.
I'm sure we're going to have congressional investigations.
I think the psychology behind it is one of the biggest unknown factors because I think you can't really explain a bank run without looking through the psychology of it.

I'm sure they thought, listen, we've been doing this for our partners in Silicon Valley for so long.
There's no way they're ever going to give up on us.
Of course they aren't.
There's a great story about this bank in Hong Kong in the 1980s that was right next to a pastry shop.
The pastry shop had just started making these fancy cakes and everyone loved them.
They were out the door at this pastry shop next to the bank and people at the bank, people were driving by the bank thinking that it was a line to the bank.
That caused a run of the bank because there was a long line of the pastry shop.
It's a psychology behind, I'm sure that they never thought in a million years, if they announced this money raise or if they decided to sell these held to maturity securities or whatever, that this was going to cause their trusted customers to pull their money.
I'm sure if you put the truth serum in them and ask them that, he would probably say, no, they'll stick by us.
They're our customers.
I'm sure it was hubris.
I think things were going so well in the tech community and they probably thought they were untouchable.
Well, this is why, Michael, I feel like, again, back to the six fingers, if you're asking who killed Silicon Valley Bank, I think you should look at and blame the bank executives who made this bet.
I think you could bring in the Federal Reserve for some blame for falling behind inflation and then trying to, whether it's accelerate to 60 or decelerate to zero, clearly it was a shocking move that has roiled a lot of the economy.
You can look at auditors like KPMG, regulators, companies, or banks that were looking at SVB and not raising the alarm.
We're going to get to whether or not we can blame politicians who passed certain laws in 2018, but none of this would have happened if the Silicon Valley culture that Becker bet on had come to pass.
That is to say, the old fashioned Silicon Valley land of collaborators where everyone says, we're in this together, we understand that if Founders Fund asked its startup to start taking money out of the bank, that it's going to cause a bank run that's going to destroy this critical part of our financial ecosystem.
Maybe six, seven, 10 years ago, you wouldn't have had a run in the bank and SVB would have been able to eke out a survival.
On top of all of these things, on top of all of its mistakes, it saw not just a mild bank run, it saw the largest bank run in history, $42 billion in one day, $1 million per second, a bank run that was essentially a social media phenomenon that people could essentially execute on their phones in order to transfer money out of the bank.
How much, Michael, do you think that the venture capital decision to pull money to execute this bank run really was just the final nail in the coffin?
It is interesting, you mentioned David Sacks blaming the Fed.

I don't remember him thanking the Fed for keeping interest rates at zero, inflating to the moon the value of a lot of these companies.
But be that as it may, think that had the senior leadership in Silicon Valley, and we know who they are, had they come out with a calm voice and said, listen, Silicon Valley Bank has been a trusted partner for four decades, they've been through ups and downs, there's no reason to expect that they won't weather this storm, we're going to stick by them.
Had that happened, it would have been fine, but that's not what happened.
The people at the top turned and told their companies to get out, and this is a very close knit culture, and once the word got out, it was the rational response as a general partner of your fund to get your company's money out.
I mean, imagine the opposite, saying, don't worry, tell your company, don't worry if you have easy to be fine, and then they're not paying fine, you're looking like an idiot.
So there was a completely rational response, I think what Greg Becker might have misunderstood is the fact, and this misunderstood is the wrong word.
Why did this happen at Silicon Valley Bank, and not other banks?
There's two answers.
One is that to what we've been talking about, they're mismanaging their treasuries, their mortgage back securities, so this is a fractional reserve system that we run on, right?
These get money, they lend it out, if everybody wants their money back at once, it cannot happen whether it's Silicon Valley Bank or JP Morgan, but they made a bet that interest rates would stay low forever, and they messed up.
That's one part.
The other part of it is that these companies, not only were they not getting money that they were in 2021 with new funding, they were, they're hemorrhaging money because the cash burn to your point about Silicon Valley subsidizing them, these monies are not, they're not profitable companies, so they're just losing money.
So what Silicon Valley Bank had to do was take some of their available for sale securities, sell them, but they had to replace that with common stock, and as soon as they did that to be compliant with regulations, as soon as they did that, it was like Leslie Nielsen, nothing to see here.
Well, there was a lot to see there, and so what they failed to grasp is that they have a model that's a customer base.
It's not diversified, it's not Bank of America.
They're not serving customers all over the country, although they are, but they're all of the same early stage, and so they ran.
And they're all in the same group chats, and they're all following each other on Twitter, and they're all locked into the same dynamics of virality and herd mentality that could cause and had historically caused a run on the bank.
It's just that in this case, it happened at the speed of light, and it happened on social media.
You're saying everywhere all at once, and so if everyone didn't leave, the bank would have been fine, but that's not how it played out.
Then there was also this very famously re-quoted take by Andy Kessler at the Wall Street Journal

that I'd like to read for you and get your response to.
In its proxy statement, Silicon Valley Bank noted that besides 91% of their board being independent and 45% women, they also have, quote, one black, one LGBTQ+, and two veterans.
I'm not saying 12 white men would have avoided this mess, but the company may have been distracted
by diversity demands, end quote.
So Kessler at the Wall Street Journal seems to think that if the bank had been entirely run by white men, we wouldn't have had this problem, which relies on the theory that no banks in the history of banking run by white men disproportionately have ever failed.
Ben, how do you feel about this particular take?
I was doing a little bit of research this past weekend and rereading about the Panic of 1907, which is probably one of the biggest financial crises in history if it wasn't for the Great Depression, and I'm not guessing that there was a lot of diversity in the banking system back then.
It was all old white men with the monocles and the top hats, and it is kind of, there's a lot of hysteria going out there, people trying to figure out different ways to make the blame game.
As we've already talked about, there's plenty of easy people and easy targets to blame here.
I don't think we need to take a step further and make it any more difficult than it needs to be.
Hang on.
Can I stand with Kessler for a second?
Please, attempt.
That's your zag?
Okay.
Yeah, that's right.
It's sort of pug.
I can't fucking believe that they allowed that to be apologized, but Peter doesn't make.
One point that I didn't make that's really important is, well, why did all the customers leave in the first place?
What were they afraid of?
Well, FDIC insurance limits you for your insurance up to $250,000.
At Silicon Valley Bank, these companies were, for the most part, venture backed.
They had tons of cash, and so something like 90% of the deposits was at risk if the bank really did go under.
On the other hand, you have a bank like Schwab, where it's individual investors for the most part, not always, but for the most part, where something like 80% of customer deposits are below the FDIC limit, so there would be no reason to run.
It was really this perfect storm, this perfect shit storm that led to a bank run.
Still is valiantly trying to keep us in the land of substantive takes on the SVB collapse while I'm just trying to get us to do anti-woke takes.
I will only add this to Ben's point about the anti-Kesler take, which is that the Wall Street Journal has been publishing continuously since the 1880s.

There were banking panics in 1884, 1890, 1899, 1901, 1907, and 1908 when the banks were exclusively
run by men who were white.
Even in this particular newspaper, it is, and I agree with Michael in his first comment,
it's really an astonishing take to have been published.
Serious clown show.
Let's move on to the political fallout.
I am not entirely sure how this is going to shake out politically.
It seems at least possible to me, Michael, that we might have averted a banking panic
and in so averting a banking panic, Joe Biden just might not be punished because you are
never punished for the panics and crises that the public doesn't experience.
Do you have a problem with that take?
Do you have a problem with what the Fed, Treasury, and FDIC did here in essentially saying as
far as it comes to the banks that failed over the last weekend, we are going to guarantee
deposits not up to 250K, but to infinity?
Not only do I not have a problem.
I applaud the speedy action with which they took, because guess what?
If they didn't act on Sunday night, they would have acted on Monday morning.
What do I mean by that?
There would have been full-blown chaos panic.
People would have run for the hills.
Regional banks would have been just sucked dry, and that's not good.
Those are the lifeblood of the American economy.
Guess who lends to local businesses?
It's regional banks.
It's not the behemoths.
So I applaud them for what they did.
The job of the Federal Reserve, first and foremost, is to ensure financial stability.
Yes, they fucked up with interest rates, but in this case, they did what they had to do.
So no, I don't fault them.
I think that it was absolutely necessary.
So I applaud them.
Derek, you mentioned all those crises in the late 1800s and early 1900s.
Those before the Federal Reserve existed, and this is maybe kind of boring, but the
reason the Fed was created in the first place is to act as a lender of last resort.
That's what their job is supposed to do.
So I think the thing that freaks people out is these crises are happening so much faster
because we're in the technology age, and then the responses are happening even faster
as well.
So you don't even get time to think through all of the different second and third or ramifications
because everything happens so fast because regulators are learning that if they let things
go on like they did in 2008 and we have Congress vote on it and something fails, then things
are going to get bad really quickly.

So regulators just say, you know what, we've learned from the past and we're going to step in before anything bad really happens and it can get worse.
It's important to know that this is not a bailout in the sense that, listen, the equity went to zero.
This is capitalism.
The bonds are trading at 30 to 40 cents on the dollar.
What needed to be backstopped, not bailed out, was depositors, regular people.
Forget about the tech pros.
There are regular, there's 40-something thousand businesses that bank with Silicon Valley Bank who guess what?
You need a bank to make payroll, right?
So this is not just bailout, the tech pros, you can't, it's not reasonable to think that the average citizen should be a forensic accountant and say, is this bank money good?
They had to step in and protect the citizens, the depositors of the United States.
I think I agree.
I think that, look, it's not just that I don't want companies to fail just because the bank they happen to put their money into was stupid.
I don't think depositors should necessarily, I don't think founders should necessarily have to think so much about whether the institution holding next month's payroll might accidentally self-fuck themselves by making the wrong bet on long-term treasuries.
I actually don't want America's startup founders to be thinking about that at all.
There's already a thousand and one things you have to keep your eye on when you're starting a company.
In AI, in biotech, I mean, there's Silicon Valley Bank branches in Boston, in Kendall Square, the heart of America's biotech community, I don't want people who are trying to cure cancer to be obsessed at 3 a.m. in the morning about whether or not the regional bank is going to fail next week.
I just don't think that's their job.
So I agree with that.
In addition to the concerted bailout, and truly, I don't care, if people want to call us a bailout of depositors, use the B term.
I'm fine.
The deeper question to me, the other term that's come up a lot is a question of moral hazard.
I'll give you my take first, Ben, before I throw it to you.
When I think about moral hazard, I think moral hazard for whom?
Silicon Valley Bank, as Michael just said, no longer exists.
So no executive of First Republic is going to look at Greg Becker and be like, you know what I should do?
I should totally fuck up my job and get bailed out by the FDIC.
No one's thinking that.
There's no moral hazard at risk among bank executives.
To the extent that there's any moral hazard here, it's moral hazard for small companies

with large deposits at regional banks.
But I'm not necessarily sure that I want to punish them right now.
I don't think that they've necessarily made a mistake by putting $250,000 in one cent at First Republic or at Pacific, whatever, Washington, whatever, whatever.
Ben, am I getting the moral hazard aspect of this debate wrong here?
Do you have a different take on the moral hazard dimension?
I think one of the things people say a lot, and they said this after 2008 was, well, this just creates a system where people just take more risk.
That's the big worry now.
Well, banks will take more risk.
But isn't it the opposite?
To Michael's point, management was fired and stock and bondholders lost their money.
The good news is most normal people are never going to have to worry about having more than $250,000.
And I think as we've seen, even if you have more than that, it's probably money good.
I think they've kind of set a precedent here.
If you're a lawyer, you'd go back and say, look what happened in March 2023.
You helped those depositors.
You're going to help our depositors.
So I think the big thing is that we have to figure out is what's the point of the banking system anyway?
I think the first giant step forward in figuring this out was in 2008 when we said, well, wait a minute, this is crazy.
And I think March 2023 is going to be the next big step that people are going to look back on in the future and say, what were we even doing here?
Why were we asking these banks to take so much risk anyway?
So Matthew Klein has that, his excellent subset called the overshoot.
So he's got a great line that I pulled here.
So he said, banks are speculative investment funds grafted on top of critical infrastructure.
This structure is designed to extract subsidies from the rest of society by threatening civilians with crises if the banks better ever allowed to fail.
And his whole system is that, look, listen, money in the payment systems and all these financial rails that we shouldn't have to worry about, that people shouldn't be freaking out about and asking me, is my money safe?
That stuff should be kind of like a utility and a public good.
Let the banks handle checking the creditworthiness of borrowers and doling out loans to people for mortgages and car loans and all the stuff that keeps the economy working in small businesses.
But maybe having the banks try to manage that risk themselves, maybe that's not a good idea in the first place.
So the Fed's just going to have to backstop them anyway.
Like let the Fed do it.
Michael, if banks really are to quote the great Matt Klein, speculative investment funds grafted on top of critical infrastructure, shouldn't we be regulating them more?

Like, is Elizabeth Warren 100% right here that the 2018 deregulation of smaller, mid-sized regional banks is a part of what brought us to this moment?
There was less scrutiny on the Greg Becker's of the world, which put them close enough to the edge that a little push from the VC community potentially or almost caused a banking crisis in America.
I mean, shouldn't we utterly reconceive of the way that we are regulating this critical industry?
So Elizabeth Warren said something along the lines of Jerome Powell should recuse himself from this and the banks should be investigated for, I think, I don't know if she used it from gambling, but it was something along those lines.
That's not exactly what happened.
Was there negligence, perhaps a gross variety, sure you could say that.
Was there criminal behavior?
No.
Were they gambling?
No.
So is the answer rightly or wrongly more regulation?
I don't see how there's any other way around this.
That's going to be the answer.
Because if there's no real limit on FDIC insurance, which is what we learned, there has to be regulation.
I don't know if it's banks having more liquidity reserves or something along those lines, but the ability for banks to make money, whether they have in the past, is not going to exist.
And one more thing on that, we want banks to lend.
So this is a very complicated issue.
What is the regulatory agency that without the 2018 law, we would have expected to maybe flag the problems at STB earlier so that it didn't have this kind of failure?
Is it the local, is it the San Francisco Fed?
Is it FDIC?
Is it another government alphabets suit agency?
Ben, Michael, who should be in charge of pulling the fire alarm here?
Let me ask Chad GBT.
I don't know the answer to that, but there is an eye.
Aren't a lot of people pointing to the Fed and saying that these banks should have been part of the same stress tests?
Well, I was about to say, stress tests, how did they miss that there?
I think, unfortunately, the biggest problem here is that we just have too many of these smaller banks, probably, and they probably all do help in their local communities.
But how are we, I don't know how the regulators are supposed to follow all these thousands of small banks.
And I think, unfortunately, the biggest byproduct of this is going to be people just can feel safer at JP Morgan and Bank of America, and they're probably going to get screwed and get worse rates and worse payments on their deposits, but they're going to be safe because

you know that those banks are never going to be allowed to fail, and you're never going to have to have a bank run on the weekend at those kind of banks.
Michael, what are the costs and benefits of just having fewer banks?
I was talking to Liz Hoffman yesterday.
I was quoting Felix Salmon, who pointed out that most other countries that have essentially our GDP per capita that are as rich as us, they don't have thousands of banks.
They have like three, four banks that are regulated, like they're basically utilities as you and Ben have talked about.
We are dramatically over banks compared to most other countries.
I am not so sure that that overbanked quality of Americans is a pure bad thing.
I'm sure that there's good things and bad things.
How do you see the pluses and minuses here of our abundance of regional banks cashing out?
Yeah, that's a great point.
I don't know enough about the banking system to have a hard opinion one way or the other.
What I would say is this, I don't know how many banks are willing to do venture-backed debt.
I think that is a good idea, frankly, but the point is that if these companies are going to get funding from the likes of Jake and Morgan, I just don't know the answer to that.
There's a bit of an irony here in the sense that Silicon Valley is at a period of time where they might have the next big thing.
GBT-4 came out today, whatever's going on in AI, we might be at an inflection point where the culmination of everything that we've been working towards with computer graphics and all of that sort of stuff, we were at Nirvana with chat GBT at exactly the time where funding might try up.
Who is writing checks right now?
If SAP, and I don't know if the company is going to disappear forever and they might still find a buyer, absent somebody to fund those companies, what venture investors are writing checks?
Well, I think the answer would be it's Microsoft.
Just very directly, if the question is where is open AI going to get $10 billion in order to fund the compute necessary to run to all of this chat GBT searches, it's Microsoft.
It's a trillion dollar company.
That goes to the idea, I think Ben Thompson is all over this point, that we might be entering an age where the top four, top five tech companies today, or in banks, don't have the same turnover rate that we might have been used to in the first decade and a half of the 21st century in the American economy.
It might just be Alphabet and Microsoft and Amazon and whatever, maybe Metta, those still might be the largest tech companies in America, 10, 15, 20 years from now.
Is that good?
I think again, I think there's pluses and minuses there.
On the one hand, I think that lack of competition is bad, lack of startup froth I think is probably bad for coming up with new ideas.

Open AI was not started inside of Metta, inside of Microsoft, inside of Google.
Those are huge bureaucratic structures that might not have had the nimbleness of Sam Altman and his team.
I think that there's something really wonderful about startup culture.
At the same time, I'm also very interested in the mid-20th century legacy of large American companies having and funding massive R&D departments like Bell Labs that allowed them to take big bets.
I don't think the 21st century record has been a sterling, but it's not as if I think large companies can't do risky things.
I think they're worse at operationalizing the risky discoveries that they happen to come up with.
I want to move to the last issue here, which is the direction of Fed policy.
I saw a lot of people then in the hours after you saw First Republic Bank just get the shit kicked out of it in the stock market down 75% say there's no way the Fed is raising rates.
Let's see a rate cut when the FOMC meets again.
Then stocks went right back up.
The inflation report that just came out was relatively hot, especially in core services.
How does this all shake out?
Do you think the near-bank crisis that we've all just passed through is going to have any effect on the future of monetary policy?
I would love to know what the narrative is going to look like in two to three months, because I think it has the potential, because I think you've shaken the trust in the financial system.
To me, that has to be deflationary now.
It could be we look back at this in a few months and say, oh, that was pretty crazy.
The Fed stepped in, there was this bank that failed and everything was fine.
I do think that there is the risk of... We've had multiple people in our life in wealth management and just regular people who follow finance just say, is my money safe?
This is the kind of thing that people go along with their whole lives and they don't ever think that they have to worry about this kind of thing.
Just getting people to stop and think that, I don't know if people are going to all of a sudden move on from that in a couple of weeks time and just move on to the next thing.
Maybe they will.
I think we're in the eye of the storm right now.
We don't know if that storm is just going to go away magically or if it's still here and there's other dominoes to follow.
I think anytime with one of these where the faith and trust is shaken, you don't know what's happening next.
I think, unfortunately, it could be that this is a deflationary force and it's going to work in the Fed's favor for inflation, but does that mean we get a recession and a potential financial crisis?

That's the hard thing that you would have told us that a week ago.
We just said you're nuts.
The inflation is high still and the economy is strong.
I think adding this other element to it is going to make their job even harder because the idea for some people is, listen, the Fed cannot stop raising rates because inflation is really becoming a problem and it's becoming entrenched.
Other people say, look, you just had to run on a bank and the Fed helped create that by raising rates too far, too fast.
I think it's the meme with a guy who's sweating and he's got two buttons.
It's really tough for the Fed right now to think through what to do, so I think it's going to be very difficult for them to see what's going to happen because they don't know if another shoe is going to drop here or not.
Michael, prediction time, what are we going to see with the next Fed meeting?
This is the first Fed meeting in, I think, the last year where there was no surprises at any of the prior meetings.
I don't know what to expect right now.
I wrote over the weekend that this might be a reverse Minsky moment in which the instability at Silicon Valley Bank leads to stability in the sense that the Fed is saying, okay, we've gone maybe too far and maybe we're going to take a pause.
In a twist of irony, maybe the panic that ensued will lead investors to take an exhale, okay, the Fed is done and then we see some sort of value in the stock market.
Who knows?
Who knows?
Who knows?
The market was implying a 50 basis point rate hike in March just a week and a half ago.
I think that's off the table.
I think it's more likely that we're going to see a 25 basis point rate hike or a pause altogether.
I'm just playing this out in my own head, a 25 basis point rate hike.
I don't see inflation coming down quickly in the next few months, but I do think that housing and rent inflation are probably going to continue to come down.
Both of those are lagging indicators.
When you look at the new rents and the new home purchases, it seems like the direction
... Right, exactly.
As Mike's doing, he's showing a space between his two hands.
There's a huge gap, which suggests that there's still room for core services to come down.
I think it's possible, and I'm not going to say this because whenever I make a prediction like this and never comes true, it's possible that we simply avoided a catastrophe and that actually there aren't going to be... This is not the boulder that drops in the water.
This is not the meteorite that crashes into the Pacific Ocean, and we're dealing with the ripples for 10 years.
It's possible that six months from now, we're going to think back to this crazy weekend and actually marvel at the fact that the government reacted quickly enough that we stopped talking

about it very quickly.
That's such a good point.
Did we just get lucky?
I'm not sure that it's possible that you could see a incremental shift of deposits from regional banks to J.P.
Morgan.
I'm banked with Bank of America, so I don't have a particular decision to make here, but if I was at a regional bank, I might really think about moving my money to a Bank of America or J.P.
Morgan.
Maybe we could see that, but again, if we don't have stock market durations a week from now, if we don't have more bank failures, if we don't have anything in the news cycle that is telling people that there is a crisis, there's a fire in the banking system, what's left to motivate decisions?
There's just going to be the next big thing.
There's just going to be some other crisis, some entertainment news, some Netflix thing, some culture war, Misha Goss, and people will move right on.
I'm not making a strong prediction here, but I'm holding out a part of my prediction portfolio for the possibility that six months from now, people actually aren't talking about this just because the federal government reacted so quickly.
Can I just say one more thing?
Derek, last time that we were on, you, me, and Ben all sort of nervously said no recession this year.
Again, I said to Ben, if there is not a backstop, if they do not prevent all of the money moving from regional banks to J.P.
Morgan, there will be a recession because there will be a severe tightening of credit.
I think we know a lot about human nature, the opposite of a bank one is inertia, and I think now that the government stepped in, I think inertia, cooler heads will prevail, and I think to the point that you just raised, which is such an interesting one, we might be lucky that SVB went under because that gave the Fed tangible evidence that they're breaking shit, and it's much better for, I don't mean this in a crass way, it's much better for it to be SVB than J.P.
Morgan, and so maybe we dodged a bullet in that sense.
My only prediction is a body like the Fed is only going to be used more as a political weapon going forward because I think people have seen the power that they have, and if one party is in power or the other party is looking to get power, and they say, wait a minute, the Fed can kind of orchestrate a financial crisis to help us or hurt us.
I think in the future, the Fed is going to be, it's tried to be this body that says, no, we're not political at all, keep us out of this.
Going forward, I think it's just going to be much more of a political body, and it's going to be used to help or hurt certain political ambitions, and that's not necessarily a good thing.
Yeah.

I guess the final word here is, thank God the real chair, the Fed Reserve, is the caps lock button on Jason Callicanus' laptop.
That really is the puppeteer that holds all of the strings.
Ben Carlson, Michael Batnick, thank you guys so much.
Thank you.
Thank you.
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