“We Are Headed For Another Train Wreck”: Bill Ackman Blames Janet Yellen For Restarting The Bank Run

Description

Yesterday morning we joked that every time Janet Yellen opens her mouth, stocks dump.

> Yellen opens mouth and stocks dump
>
> — zerohedge (@zerohedge) March 21, 2023

Well, it wasn’t a joke, and as we repeatedly noted today, while Jerome Powell was busting his ass to prevent a violent market reaction – in either direction – to his *“most important Fed decision and presser of 2023”*, the Treasury Secretary, with all the grace of a senile 76-year-old elephant in a China market, uttered the phrase…

- **YELLEN: NOT CONSIDERING BROAD INCREASE IN DEPOSIT INSURANCE**

… and the rest was silence… or rather selling.

Commenting on our chart, Bloomberg's Mark Cudmore noted it was Yellen who was *"to blame for the stock slump"*, pointing out that "***the pessimistic turn in US stocks began within a minute of Janet Yellen starting to speak."***

> The S&P 500 rose almost 1% in the first 47 minutes after the Fed decision. Powell wasn't the problem either: the index was 0.6% higher in the first 17 minutes after his press conference started.
>
> Why am I picking that exact timing of 2:47pm NY time? Because that is the minute Yellen started speaking at the Senate panel hearing. The high for the S&P 500 was 2:48pm NY time and it fell more than 2.5% over the subsequent 72 minutes. Good effort.

Picking up on this, Bloomberg's Mark Cranfield writes that **banking stocks globally are set to underperform for longer after Janet Yellen pushed back against giving deposit insurance without working with lawmakers.** He adds that "to an aggressive trader this sounds like an invitation to keep shorting bank stocks — at least until the tone changes into broader support and is less focused on specific bank situations." Earlier, we addressed that too:

> *YELLEN: NOT CONSIDERING BROAD INCREASE IN DEPOSIT INSURANCE
>
> At least until spoos drop below 4K again
>
> — zerohedge (@zerohedge) March 22, 2023

Looking ahead, Cranfield warns that US financials are likely to be the most vulnerable as they are the epicenter of the debate. Although European or Asian banking names may outperform US peers, that won't be much consolation for investors as most financial sector indexes may be on a downward path.

> The KBW bank index has tumbled from its highs seen in early February, but still has a way to go before it reaches the pandemic-nadir in 2020. **Traders smell an opening for a big trade and that will fuel more downside. Probably until Yellen blinks.**

And if Bill Ackman is right, she will be doing a whole lot of blinking in days if not hours.

Ackman crying in public

While we generally make fun of Ackman's self-serving hot takes on twitter, today he was right when he accused Yellen of effectively restarting the small bank depositor run which according to JPMorgan has already seen $1.1 trillion in assets withdrawn from "vulnerable" banks. This is what Ackman tweeted:

> Yesterday, @SecYellen made reassuring comments that led the market and depositors to believe that all deposits were now implicitly guaranteed. That coupled with a leak suggesting that @USTreasury, @FDICgov and @SecYellen were looking for a way to guarantee all deposits reassured the banking sector and depositors.
>
> This afternoon, @SecYellen walked back yesterday's implicit support for small banks and depositors, while making it explicit that systemwide deposit guarantees were not being considered.
>
> We have gone from implicit support for depositors to @SecYellen explicit statement today that no guarantee is being considered with rates now being raised to 5%. 5% is a threshold that makes bank deposits that much less attractive. **I would be surprised if deposit outflows don't accelerate effective immediately.**

Ackman concluded by repeating his ask: a comprehensive deposit guarantee on America's $18 trillion in assets…

> A temporary systemwide deposit guarantee is needed to stop the bleeding. The longer the uncertainty continues, the more permanent the damage is to the smaller banks, and the more difficult it will be to bring their customers back.

… but as we noted previously pointing out, you know, the math…

> Math: $18 trillion in deposits, $125 billion in the deposit insurance fund. https://t.co/Zsu2RsJk41 pic.twitter.com/nb3Ypnt1gd
>
> — zerohedge (@zerohedge) March 21, 2023

… absent bipartisan Congressional intervention – which is very much unlikely until the bank crisis gets much, much worse – this won't happen and instead the Fed will continue putting out bank fire after bank fire – even as it keeps hiking to overcompensate for its "transitory inflation" idiocy from 2021, until the entire system burns down, something which Ackman's follow-up tweet was also right about:

> Consider recent events impact on the long-term cost of equity capital for non-systemically important banks where you can wake up one day as a shareholder or bondholder and your investment instantly goes to zero. When combined with the higher cost of debt and deposits due to rising rates, consider what the impact will be on lending rates and our economy.
>
> The longer this banking crisis is allowed to continue, the greater the damage to smaller banks and their ability to access low-cost capital.
>
> Trust and confidence are earned over many years, but can be wiped out in a few days. I fear we are heading for another a train wreck. Hopefully, our regulators will get this right.

Narrator**: no, they won't.**

by Tyler Durden

Category

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