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# Regional bank stocks nosedive, the Fed hikes rates, and the Treasury struggles to pay the bills

Article

**The news: First Republic Bank's** collapse over this past weekend renewed fears about the US banking system, and this week's Fed interest rate hike has only added to the uncertainty.

**You are the weakest link:** After a brief period of calm in the US financial markets, **JPMorgan**'s acquisition of floundering First Republic Bank was a catalyst for declining stock indices—such as the KBW Regional Banking Index, down as much as 5.52% this week—and finicky volatility indicators. A few regional banks are now coming into focus as the next weakest link.

- California-based **PacWest**, which has been on watch since the beginning of the crisis, saw its shares drop 27% on Tuesday, with only a slight rebound as of Wednesday morning.
- Another bank that's been steady in headlines, Arizona-based **Western Alliance**, saw its shares fall roughly 15% with a minimal rebound on Wednesday.
- **Zions Bank**, **KeyBank**, and **Comerica Bank** shares all experienced drops between 9% and 12%.
- Pennsylvania-based **Republic First Bank**—which has already been battered because of the unfortunate similarity of its name to First Republic Bank—took another blow this week when it recorded a $3.1 million pretax loss due to a write-down in **Signature Bank** preferred securities. Its stock is down more than 16% as of Wednesday, though it reported its deposit level grew in April.

With First Republic's failure closely linked to contagion, all eyes will be on these banks to see if one or more become the next victim.

**Policy in the balance:** Meanwhile, the Federal Open Market Committee (FOMC) met this week to discuss its next steps with interest rates as inflation persists. The US Treasury also put pressure on Congress to address the debt ceiling.

- The Fed raised interest rates once more to a target range of 5% to 5.25% and signaled it would pause on additional hikes. Talk of interest rate cuts has circulated over the past few months, but the Fed hinted that any cuts are still a ways off.
- The tighter credit environment that's characterized the financial markets since multiple banks collapsed in March is expected to mimic the effect of another half-point rate hike, according to a survey of economists conducted by Bloomberg.
- On Monday, US Treasury Secretary Janet Yellen sent a letter to Congress urging it to raise the $34 trillion debt ceiling as quickly as possible. The letter stated the US may not be able to pay its bills as early as June 1.

- White House economist Heather Boushey also took aim at the Fed and Congress, saying that the constant interest rate hikes are hurting the banking system, and warning that another hike, paired with stress from the debt ceiling, would push the economy off course.

**The big takeaway:** Though the FOMC's outlook indicates a pause in rate hikes, the summer looks to be shrouded in uncertainty.

- Regional banks aren't yet in the clear. With intense focus on their deposit levels and stock prices dominating the news, consumers may be unable to regain their confidence in these financial institutions. Regulatory changes are still far off, which doesn't bode well for what looks like slow-moving contagion.
- The FOMC may be taking a step back from interest rate hikes, but the decision on whether to implement a prolonged pause, institute rate cuts, or resume hikes won't be easy. FOMC members are divided, according to Fed forecasts, and the threat of a recession and rising unemployment will only further complicate their decision making.
- Congress and the US Treasury will also be hard at work this month determining how to handle the US debt ceiling. A government shutdown would only shake consumer confidence even more, but a divided Congress will likely bring the solution down to the wire.

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