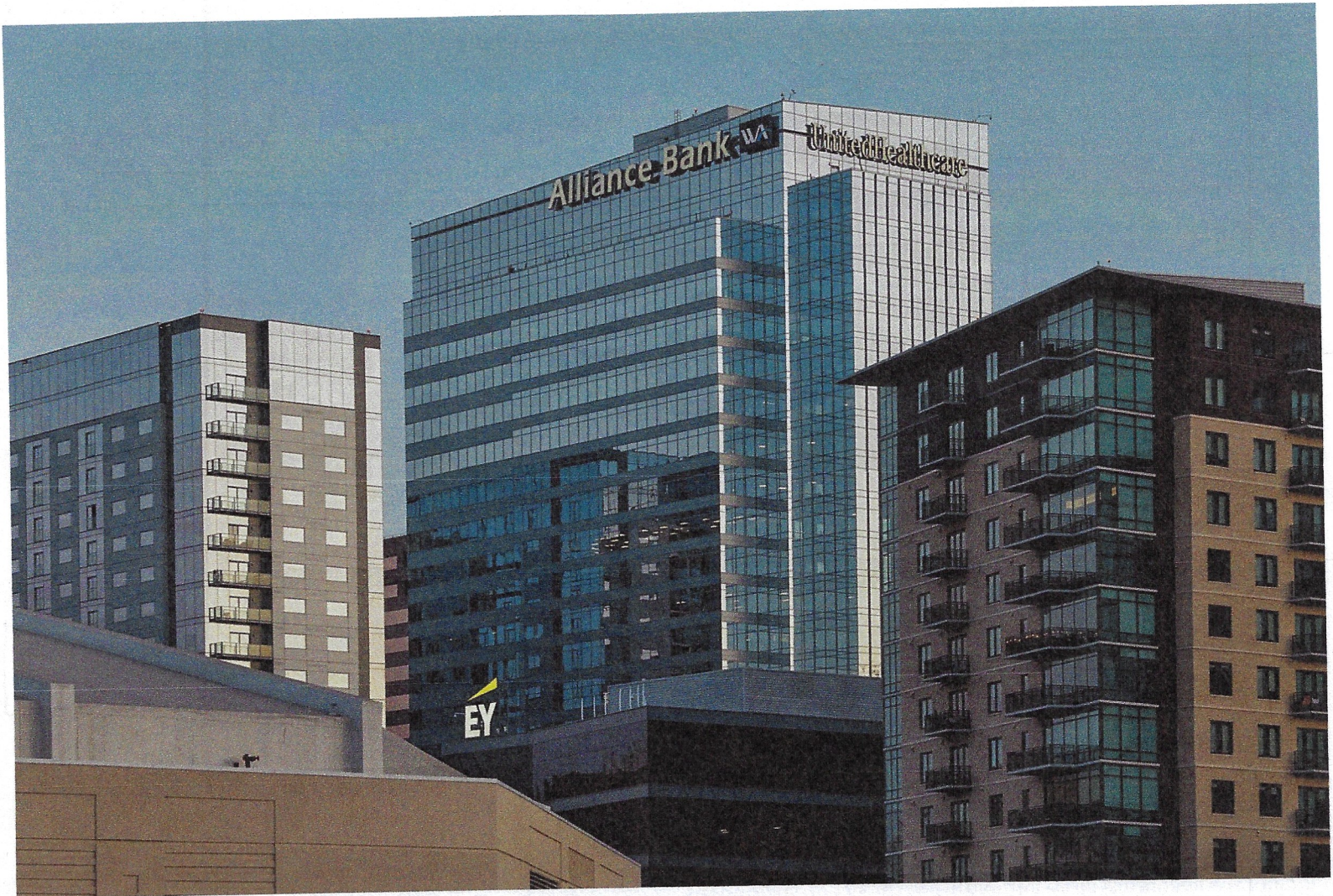


10-18-25

Investors shudder at signs of loan trouble in regional banks



After months of roaring share prices, stock investors were rattled this week by reports of souring debts on bank balance sheets, including at the Western Alliance Bank of Arizona, which has its headquarters in Phoenix. ADAM RIDING — THE NEW YORK TIMES

BY JOE RENNISON
THE NEW YORK TIMES

Through the summer, stocks were riding a resilient economy and corporate earnings that, in large part, exceeded analysts' expectations. But as summer has turned to fall, investors are being rattled by a renewed trade dispute with China and reports from banks of souring debts on their balance sheets.

The S&P 500 index was flat in early trading Friday, after recording a loss the day before when troubles at smaller banks spooked investors.

Regional bank Zions Bancorp on Thursday disclosed a \$50 million charge-off related to loans made to a pair of real estate investors looking to buy distressed commercial mortgages. Western Alliance Bank also disclosed Thursday that it believed it was the victim of fraud involving commercial real estate loans and that it had sued the borrowers.

The disclosures came on the heels of the downfall of subprime auto lender Tricolor and auto parts supplier First Brands Group, with banks including JPMorgan Chase, Fifth Third Bancorp and Jefferies disclosing losses from loans to the companies.

"My antenna goes up when things like that happen," Jamie Dimon, CEO of JPMorgan, said on the bank's quarterly earnings call Tuesday. "And I probably shouldn't say this, but when you see one cockroach, there are probably more."

Those bankruptcies also flared concerns that the strength of the consumer, which has propped up the economy since the onset of the COVID-19 pandemic, might be waning. With the government shutdown, economic data tracking the current health of the economy is sparse, adding to the nervousness.

Major stock indexes have soared to record highs, prompting worries that the market has become overvalued and that a three-year bull market may be slowing down. And with the end of the year approaching, investors tend to try to protect their gains, while banks pull back from the market to shrink their balance sheets before important regulatory calculations made at year end.

That can make financial markets more vulnerable to short-term shocks.

Bank stocks, in particular, are reflecting the jitters. The KBW Bank index has tumbled 7% from its peak in September. On Thursday it fell 3.6%, its largest one-day decline since April. And that was even after big banks like JPMorgan, Citi and Goldman Sachs reported bumper profits for the recent quarter, with all three banks' share prices moving more than 5% lower this month.

Zions and Western Alliance fell by double digits Thursday, after their losses were digested by stock investors. Jefferies, the investment bank that was involved in First Brands' financing, sought to assure its shareholders that its losses in the bankruptcy would be limited. But its stock fell almost 11% Thursday, adding to its recent losses. The stock is down roughly 38% since the start of the year.

Most analysts downplayed any immediate risk to the broader economy. Corporate borrowing costs remain low, which is a sign of healthy investor demand to lend and robust strength among borrowers.

"Is this weakness warranted? Yes," analysts at Bank of America noted in a research note this month, citing the concerns stemming from recent bankruptcies. "Importantly, does this signal something bigger? Not per our assessment as broad credit market fundamentals remain in good shape," the analysts added.

The sharp stock slide Thursday for both Zions and Western Alliance instead shows investors' sensitivity to the potential for risks lurking in some of the darker corners of debt markets, said Justin D'Ercole, founder of ISO-MTS, a hedge fund that specializes in bank debt.

"We have a serious credit bubble right now," he said. He doesn't necessarily believe the bubble is about to burst, but believes that markets are becoming more vulnerable to the economic outlook.

"You need a perfect economy, with low volatility, very stable interest rates and everything else to go right for this stuff not to become an issue," he said.

Dimon said recent bankruptcies should be a warning of more unpleasant surprises ahead. "Everyone should be forewarned on this," he said.

Longer-dated Treasury yields, typically a haven asset that investors buy during periods of worry, rose in value Thursday, pushing yields lower. The 10-year Treasury yield fell below 4% to its lowest in more than a year.

Ian Lyngen, an interest rate strategist at BMO Capital Markets, said that "the aggressiveness of the move" in bonds highlighted the vulnerability of markets to bad news about the economy or financial conditions.

As recent debt defaults have raised worries about other bad loans and a pullback in bank lending, there has been a rush to shore up short-term cash loans, said analysts, used by a host of market players to cover fluctuations in daily costs.

Cash had already been leaving the market to pay corporate taxes and to pay for recently auctioned government bonds, raising demand for new funding.

The increased demand for cash when willingness to lend in money markets has appeared more scarce has pushed up the cost of borrowing cash overnight — a vital source of funding that lubricates the financial system and helps money flow where it is required each day — to banks, hedge funds and other investors.

On Thursday, one crucial interest rate drifted outside the target range set by the Federal Reserve for the first time in more than a year, a sign that the financial system is starting to get clogged.

The Secured Overnight Financing Rate, or SOFR, rose to 4.29% Thursday, above the upper bound of the Fed's target range, which is set at 4.25%. It is very rare for short term interest rates like SOFR to move out of the Fed's target.

Thursday's move arrived after a period of increasingly jumpy money markets — the broad term for the short-term funding markets that help keep the financial system moving and are separate from corporate bond and loan markets. For now, the market moves remain modest, but investors and analysts are watching short-term interest rates very closely in case the current funding strain continues.

"It's too early for me to tell whether this funding demand will fade or sustain at this point," said Guy LeBas, an interest rate strategist at Janney Capital Management.

Ultimately, the Fed has the tools to step in and fix a funding squeeze should it worsen.

