LESA SROUFE & CO INC.
VALUE ADVISORS

SHEILA BAIR: 'I FEEL FOR THE REGULATORS.' DEC 14, 2022

Financial Times

Central Banks across the world are raising interest rates in attempt to tame inflation; higher rates brings economical stress and an increased chance of unintended consequences. As head of the US Federal Deposit Insurance Corporation from 2006 to 2011, Sheila Blair helped lead the response to the 2008 financial crisis. The Financial Times interviewed Sheila who suggests that banks are more resilient and less leveraged now than they were back in 2008, but the reforms from the fallout have never really been tested. Further, she warns that regulators have never really got to grips with private equity, hedge funds, and private lenders, collectively dubbed "shadow banks," which are used heavily by pension funds, endowments, and other private investors. While Bair clarifies that there is nothing wrong with investing in illiquid assets, she says transparency is key, and in her view, the lack of transparency as it stands, is a major risk factor that is not being accounted for as municipalities, pension funds, and other people with fiduciary obligations take on more risk to generate higher returns.

LS Comment: Tightening liquidity will result in all sorts of unintended consequences for illiquid asset investors, and it won't be pretty.