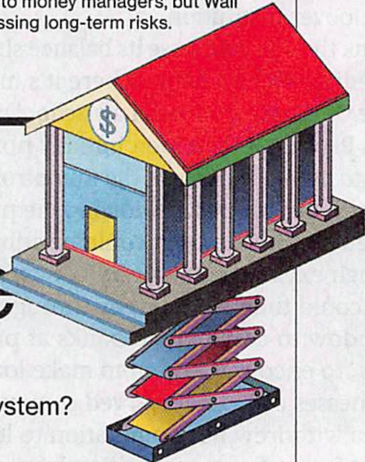
helped ESG's cause that Russia's invasion of Ukraine drove up oil stocks last year. At the same time, there was a slump in the stocks of tech companies, which are heavily owned by ESG investors. So far the GOP attacks have had a modest impact on the flow of money. Even though Florida and other states pulled billions of dollars from BlackRock funds last year, other investors added to US sustainable investments, according to data from Morningstar Direct.

But there were withdrawals in this year's first quarter from those funds. This more likely reflected performance issues and concerns about the global economy rather than politics, says Alyssa Stankiewicz of Morningstar Research Services. Still, the attacks may be discouraging new investors from sustainable funds, she says.

The backlash hasn't kept proponents from pushing ahead. Investors are eyeing opportunities from the US's landmark climate law, which is set to unleash a boom in green projects. BlackRock Chief Executive Officer Larry Fink didn't use the ESG acronym in his latest letter to investors, but he did devote more than a dozen paragraphs to the shift to cleaner fuels. And at a Tesla Inc. investor event in March, Musk—who after all runs an electric-car company—and a group of his deputies detailed efforts to create a world without fossil fuels, in front of an audience sipping water from cardboard cartons instead of plastic bottles. *—Saijel Kishan*

THE BOTTOM LINE Conservatives argue that ESG gives inappropriate political influence to money managers, but Wall Street says it's a matter of assessing long-term risks.

# Imagining a Bank Without the Leverage




● A "narrow" bank could take no risk—but is that healthy for the financial system?

The collapse of three regional US banks this spring is a reminder that, at their heart, banks are risk-taking businesses. For most depositors, banks are risk-free thanks to federal insurance of as much as $250,000. That's why "like money in the bank" is shorthand for a sure thing. In reality, of course, the money that people keep in the bank isn't sitting in cash. Deposits are a liability of the bank—a short-term debt it owes to its customers. On the other side of its balance sheet are a bank's longer-term loans and investments. If its bets go the wrong way at the same time that many depositors want their money back, it's in trouble. That's what happened to Silicon Valley Bank and its fellow failures.

But what if a bank did hold all its customers' deposits safely in cash, or something exactly like it—and left lending to other institutions where investors know they're taking a risk by giving them their money. The idea is sometimes called "narrow" banking, because it reduces a bank to its most mundane function. The US Federal Reserve has tools to make this possible but has argued it could upend how the financial system works. "The Fed is negative on narrow banks," says Campbell Harvey, a finance professor at Duke University.

For a big financial institution, the safest form of "cash" isn't a pile of paper bills somewhere, but money parked in an account with the Fed. Individuals don't have access to the central bank's various facilities. But in theory a bank could set itself up as a passive funnel to a Fed account. Customers could put money in this bank, which in turn would stash it at the Fed, passing along the interest minus a service fee. Because every dollar of deposits would be backed by cash, there'd be no risk of a bank run. Variations of the idea have been embraced by libertarians who see it as a way to lessen the need for regulation, but also by people on the left looking to reduce the systemic danger and political clout of too-big-to-fail banks.

The most high-profile push for a narrow bank came in 2018, when TNB US Inc.—run by a former head of research at the Federal Reserve Bank of New York—sued the central bank, demanding that it allow TNB to open an interest-earning account. The Fed objected vigorously, and TNB's suit was thrown out in March 2020.

The central bank has raised several concerns about narrow banks. The main one is that in times of stress they'd be too attractive as a ▶

◀ haven. Money could pour out of Treasury bills, high-quality bonds or even accounts at conventional banks, amplifying risks to the broader financial system. Narrow banks could also make it harder for the central bank to manage short-term interest rates. And because conventional banks could end up holding few deposits, they might do less lending, making loans more expensive and credit harder to get.

Some advocates of narrow banking say more lending could be done by financial institutions or funds that aren't banks. "Take risks, make risky loans–just raise the money to do so by long-term debt or loads of common equity," says economist John Cochrane, a senior fellow at Stanford University's Hoover Institution.

Others think the Fed could use its balance sheet to ensure credit is still available where it's most needed. Saule Omarova, a Cornell Law School professor whom President Joe Biden initially nominated in 2021 to head the Office of the Comptroller of the Currency, has proposed allowing the public to open Fed accounts, which could be administered through existing community banks. She says the Fed could then lend money through its discount window to commercial banks at preferential rates, to encourage them to make loans to small businesses or in underserved communities. Omarova withdrew her nomination to lead the OCC after facing fierce opposition from the banking industry.

There may be more than one road to something like a narrow bank. The recent flood of cash from bank deposits and into money-market funds has underscored that the funds already look a bit like narrow banks. Money-market funds don't have deposit insurance–one big fund famously collapsed during the 2008 financial crisis–but regulations have spurred a shift in balances to funds that invest in instruments implicitly backed by the US government. These days they've collectively been parking more than $2 trillion overnight in another Fed instrument, known as the reverse repo facility, and earning more than 5%.

The central bank recently tightened its rules around its reverse repo facility, in an apparent effort to keep anyone from using it as a backdoor way to create a narrow bank. If the Fed determines a fund seems to have been designed only for the purpose of moving cash into this facility, it can deny access.

This was particularly bad news for a part of the cryptocurrency industry known as stablecoins. These coins, which are supposed to always be worth $1, generally need to be backed by cash or low-risk investments to work. If a stablecoin's assets were fully invested in a money-market fund that used the central bank's reverse repo facility, it might look like a de facto Fed-backed cryptocurrency. But the Fed is already wary of letting digital assets any closer to the traditional banking system, so it looks as if there won't be any crypto narrow banks for the foreseeable future. *—Alex Harris, with Olga Kharif*

THE BOTTOM LINE The fall of Silicon Valley Bank and others is bringing back the idea of a bank that can't be run. But for most depositors, federal insurance already makes banks safe.

# It's 11 p.m. Do You Know Where the S&P 500 Is?

● All-night retail stock trading is here, but most investors are probably better off catching z's

Money never sleeps on Wall Street. Or at least that's what Michael Douglas's character Gordon Gekko tells us in the Hollywood version of Wall Street.

And now the amateur traders on all the other streets will get the opportunity for their own stock-market-induced insomnia: Robinhood Markets Inc. has introduced 24-hour trading in 43 of the most active US exchange-traded funds and individual companies such as Tesla, Amazon and Apple. Orders now can be placed and executed anytime from 8 p.m. New York time on Sunday to 8 p.m. on Friday. Robinhood joins Interactive Brokers Group, which recently introduced overnight trading of 79 stocks and ETFs, and other brokerages offering round-the-clock trading only of popular ETFs.

Quick, to the day-trader message boards on Reddit for some reaction from the target audience! "Why would anyone want this?" asks one poster. "Because gamblers are gonna gamble," responds another. "Nice! I can save gas from driving to the casino," adds a third. Or as Vlad Tenev, the head of Robinhood, put it on an earnings call: "It allows our customers to better manage their risk and take advantage of opportunities, no matter what time of day they arise."

Given Robinhood's influence in ushering in the chaotic but here-to-stay era of commission-free