



March 20, 2023

Update on Impact of Recent Bank Failures

Introduction

In this note, we review the events / developments in the banking sector over the last week and highlight the effect of those events on equity and fixed income markets, interest rates, and the path forward for the Federal Reserve.

Timeline of Events

Friday March 10

- Silicon Valley Bank taken into conservatorship by the FDIC.

Sunday March 12

- Signature Bank taken into conservatorship by the FDIC.
- Joint statement issued by US Treasury, FDIC, and Federal Reserve giving the FDIC the authority to fully protect all depositors of SIVB and SBNY, including those previously uninsured with balances over \$250,000.¹

Wednesday March 15

- Credit Suisse Group said it would borrow up to 50 billion Swiss francs, equivalent to \$53.7 billion, from the Swiss central bank to shore up its liquidity.²

Thursday March 16

- A consortium of big banks announced a deal to make \$30B in deposits to First Republic Bank (FRC), whose stock dropped ~73% for the week through Wednesday's close.³
- The plan would see J.P. Morgan Chase (JPM), Bank of American (BAC), and Citigroup (C) each deposit \$5B, while other banks would add smaller amounts. Deposits would be obligated to remain with FRC for at least 120 days.³



Sunday March 19

- Swiss authorities facilitated a deal to help provide near-term financial market stability with UBS acquiring Credit Suisse for CHF 3B.⁴

Equity Markets & the Financial Sector

- The US equity market is thus far holding up well despite the regional banking sector taking a hit.
- Month to date through 3/17/23:
 - S&P 500 is down around -1.2%
 - S&P 500 Financials is down around -13.3%
 - SPDR S&P Regional Banking Index ETF (KRE) is down around -29.3%.
- Bank valuations are attractive, but earnings will likely remain a headwind to performance from here. Additionally, the cost of capital is rising and uncertainty about future bank regulation is weighing on the sector.

Fixed Income Markets & Interest Rates

- Yields declined over the course of the week. The 10-year US Treasury yield declined to 3.43% on Friday, down from 3.70% the week before.
- Corporate credit spreads have increased in response to recent events, particularly spreads for lower quality bonds.

Federal Reserve Policy

- Hard landing concerns have picked up this week with the effects of the Fed's aggressive tightening cycle in focus via bank failures. A lot of the discussion has revolved around the likely drag on credit growth as banks further tighten lending standards.
- While the evolving banking crisis has recently been front and center, attention shifted later in the week toward central bank policy, particularly the next FOMC meeting on March 22.
- Last week, the expectation for further Fed increases this year was between 100 and 125 basis points.⁵
- The market is looking for Federal Reserve rate hikes to peak with 25 basis points next week, with possible cuts ahead.⁶



- Additionally, recent economic data has tended to confirm return of disinflationary narrative, which may comfort a Fed that has looked to be data dependent but voiced concern about hotter January reports.⁵
- The Fed will also undoubtedly be watching market reaction to Thursday's ECB decision, which hiked rates by 50 basis points despite thoughts they might step down to 25bp.⁶
- The outcome of the next Federal Reserve policy meeting will be closely watched for signals about their intentions to continue increasing interest rates.

Conclusion

We expect there could be ripples flowing out of this event more broadly into risk assets. But the broad equity markets reaction to the policy responses announced last weekend showed signs that the broad market was preparing to weather the storm.

We believe it is important not to get caught up in the news and headlines around crisis events. Market volatility can create anxiety in the short term but may also present longer-term opportunities. Sticking to long term plans during times of stress is often the best decision for investors.

We continue to monitor developments closely for additional risks and potential opportunities, which may include increasing allocations to bank stocks when financial conditions stabilize.

¹ Treasury, Federal Reserve, and FDIC Joint Announcement; <https://www.federalreserve.gov/newsevents/pressreleases/monetary20230312b.htm>

² <https://www.wsj.com/articles/credit-suisse-shares-plunge-as-bank-storm-spreads-to-europe-7251349d?mod=djem10point>

³ <https://www.bloomberg.com/news/articles/2023-03-16/us-pushes-first-republic-rescue-with-big-banks-after-stock-slump?srnd=premium&sref=J9GPLx1B#xj4y7vzkg>

⁴ FactSet; Today's Top News, 3/20/23

⁵ J.P. Morgan Asset Management conference call 3/13/23

⁶ FactSet; Today's Top News 3/16/23 <https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html>



All market pricing and performance data from FactSet, unless otherwise cited. Asset class and sector performance are gross of fees unless otherwise indicated.

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