The week in seven charts

Chart #3

U.S. regional banks fall 18% on the week following the failure of Silicon Valley Bank.

Read more on p3

Image source: mashable.com

SVB failure - the knock-on effect on US regional banks

The KBW index of US regional banks lost nearly 18% of its value last week, following the failure of Silicon Valley Bank. Each week, the Syz investment team takes you through the last seven days in seven charts.

Charles-Henry Monchau

Chief Investment Officer

Chart #1 —

Sentiment is back to “Extreme Fear”

Equity markets fell sharply last week. Initially, investors had to "digest" a speech by Fed Chairman, Jerome Powell, signaling that the central bank might raise interest rates more than expected due to persistent inflationary pressures. At the end of the week, a second phase of decline was observed following the setbacks of Silicon Valley Bank (SVB). The S&P 500 Index fell on Friday to its lowest intraday level since January 5, with the decline accelerating after the index broke its 100- and 200-day moving averages. The CNN Fear & Greed indicator (investors' risk appetite in the U.S. equity market) moved from neutral to "**Extreme Fear**", the level of extreme doubt.

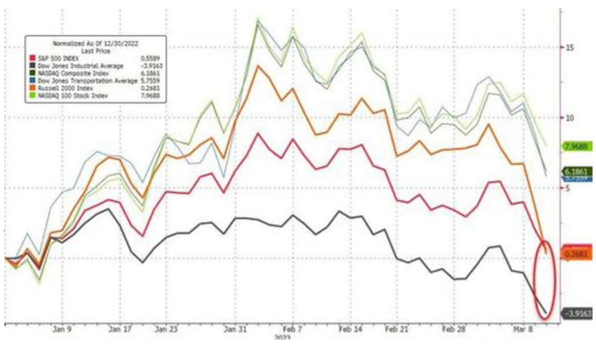
Source: CNN

Chart #2 —

The Dow Jones is in the red for the year. The S&P 500 is flat

Following last week's downward movement in equity markets, the Dow is now down 4% in 2023. The S&P 500 and Russell 2000 are now unchanged for the year, while the Nasdaq 100 remains in positive territory (nearly 8%).

Performance of the main U.S. equity indices since the beginning of the year



Source: www.zerohedge.com, Bloomberg

Chart #3 —

U.S. regional banks fall 18% on the week following the failure of Silicon Valley Bank (SVB)

The KBW index of US regional banks lost nearly 18% of its value last week following the failure of Silicon Valley Bank (SVB), the 16th largest US bank. The 4 largest banks in the US (JP Morgan, Bank of America, Wells Fargo and Citigroup) held up better than the regional banks, but still lost tens of billions of dollars in market capitalization in a few days.

SVB is a California-based bank that is little known to the general public and is very popular with start-ups. The bank could no longer cope with the massive withdrawals of its customers, mainly tech players, and its last attempts to raise new money were unsuccessful. The SVB was closed on Friday by the US authorities.

On the markets, the panic started on Thursday, after SVB announced that it was seeking to raise capital quickly to cope with the massive withdrawals of its customers, without success and having sold $ 21 billion of financial securities, losing $ 1.8 billion in the process.

The announcement surprised investors and rekindled fears about the soundness of the banking sector as a whole, especially with the rapid rise in interest rates, which is driving down the value of bonds in banks' portfolios and increasing the cost of credit.

Although this is the largest bank failure in the U.S. since 2008, an industry-wide contagion seems (at this stage) unlikely.

SPDR S&P Regional Banking index

Source: www.zerohedge.com, Bloomberg

Chart #4 —

Major U.S. banks face very large unrealized losses on bonds accumulated over the years

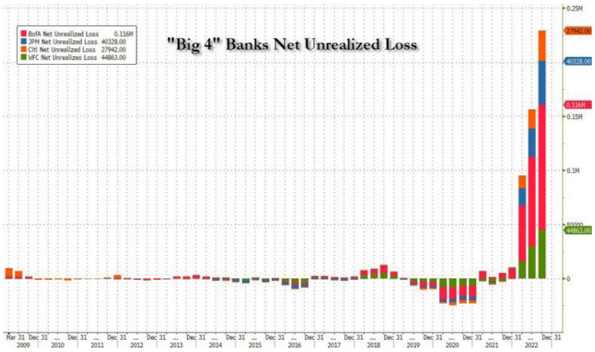
The reason traders are worried about contagion in the banking sector is that financial firms hold large inventories of "held-to-maturity" bonds that do not show up in their financial statements, but which have lost some of their market value as bond yields have risen. These massive unrealized losses would have to be accounted for by banks in the event that they were forced to sell them to raise cash.

While the double whammy of bond losses on balance sheets and the flight of customer deposits creates a risk for many U.S. banks, smaller regional banks are even more exposed to this dynamic from both a liquidity and funding perspective.

The inversion of the yield curve hurts the business model of regional banks more than it does the large universal banks.

The failure of the SVB should be seen as an extreme and hopefully isolated event. Indeed, the SVB was impacted more than others because of its heavy reliance on deposits (89% of liabilities) and its exposure to the technology sector.

Unrealized losses of the 4 largest US banks



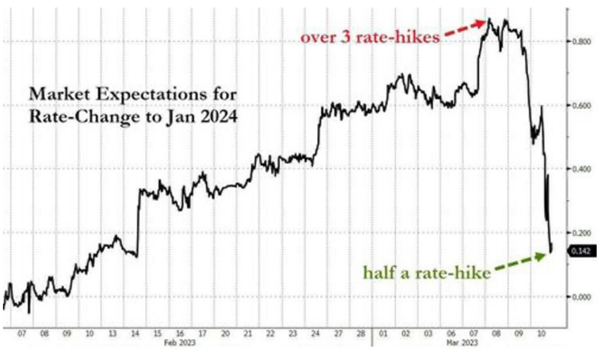
Source: BofA

Chart #5 —

Bond markets volatility spikes

The sharp decline in the equity markets following the SVB bankruptcy prompted investors to take refuge in US Treasury bonds. As a result, 10-year yields fell by about 27 basis points over the week. This decline can be seen across the entire bond curve, with the short end of the curve falling by nearly 30 basis points over the week. This decline reflects a readjustment of rate hike forecasts in the United States. On Wednesday, the market was forecasting more than three 25 basis point rate hikes through January 2024. On Friday, half of a rate hike was now anticipated by the markets.

Number of rate hikes by the Fed by January 2024 as anticipated by the markets



Source: www.zerohedge.com, Bloomberg

Chart #6 —

Unemployment rate rises in the U.S.

The most anticipated macroeconomic data of the week was the U.S. employment figures for the month of February. The U.S. economy added 311,000 new jobs in February, higher than the forecast of 225,000. However, the unemployment rate rose from 3.4% to 3.6%, a figure that was higher than expected. In other "good news" for the markets, wage growth is slowing as monthly wages rose by 0.2% versus 0.3% expected. This data provides some reassurance to economists and markets about the future direction of U.S. inflation.

US employment numbers – February 2023

United States | Browse | 14:36:43 | 03/10/23 - 03/17/23
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	Date Time	Event	Period	Surv(M)	Actual	Prior	Revised
21)	03/10 14:30	Two-Month Payroll Net Revision	Feb	--	-34k	--	--
22)	03/10 14:30	Change in Nonfarm Payrolls	Feb	225k	311k	517k	504k
23)	03/10 14:30	Change in Private Payrolls	Feb	215k	265k	443k	386k
24)	03/10 14:30	Change in Manufact. Payrolls	Feb	10k	-4k	19k	13k
25)	03/10 14:30	Unemployment Rate	Feb	3.4%	3.6%	3.4%	--
26)	03/10 14:30	Average Hourly Earnings MoM	Feb	0.3%	0.2%	0.3%	--
27)	03/10 14:30	Average Hourly Earnings YoY	Feb	4.7%	4.6%	4.4%	--
28)	03/10 14:30	Average Weekly Hours All Employees	Feb	34.6	34.5	34.7	34.6
29)	03/10 14:30	Labor Force Participation Rate	Feb	62.4%	62.5%	62.4%	--
30)	03/10 14:30	Underemployment Rate	Feb	--	6.8%	6.6%	--

Source: Bloomberg

Chart #7 —

Why not invest in stocks from companies you love?

An interesting calculation made by Compounding Quality: a customer who consumed for four dollars at Starbucks over the last 20 years, would have spent a total of 19,200 dollars. Over the same period, buying Starbucks shares for $4 every day would have earned $161,396.

Why not do both: consume and invest in companies you are a regular customer of (this is not a recommendation for Starbucks stock).

Source: Compounding Quality

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