

Bank Tremors in the USA

Silicon Valley Bank had to be placed under the supervision and administration of the authorities because the bank could no longer finance large and broad withdrawals of customer deposits. The mood in financial markets quickly soured, dragging down assets prices and prompting a flight to safety. And while the SVB case is primarily a result of poor risk management and a business model concentrating on a rather homogenous depositor base, the events still provide an indication of where cracks and weaknesses resulting from the rapid and vigorous interest rate hike in the U.S. may appear. We do not expect this to be the initial spark for a broad banking crisis. However, it is likely to lead to more cautious and more expensive production in the industry. With the outlook for a narrowing of margins, bank stocks have become less appealing.

The Federal Reserve's restrictive stance has been called into question by this incident. Last week, the markets still assumed that the key interest rate (Fed Funds) will increase by 100 basis points to 5.5% by the end of the year. Currently, interest rates are expected to fall by 100 basis points by the end of the year. This volatility in interest rate expectations is understandable and reflects the market's view that the Fed should finally consider a pivot in their interest rate policy - despite still high inflation levels. We would be a bit more cautious and could imagine that, in the best-case scenario, the Fed will forgo the announced rate hike in March and hold off on further hikes for the time being, although our base case still sees a 25bp hike.

With these shifts in the interest rate outlook, as was already the case at the beginning of the year, the risk of a recession is likely to recede and thus the expected earnings of companies are likely to be better. This should have a favorable impact on the equity markets, although it is unlikely that the markets will take off sustainably, as the uncertainties remain considerable. On the other hand, success on the inflation front is likely to be delayed, which would have a rather unfavorable impact, particularly on bond valuations.

It is reasonable to assume that the projected path of rate hikes in Europe will not be significantly altered by the events in the USA. Inflation in the euro zone is much higher than in the U.S. at 8.5% and the economy has been surprisingly resilient despite the energy crisis and war. This relative change in the interest rate outlook on both sides of the Atlantic should lead to a weakening of the US dollar against the euro and the Swiss franc.

The seismic price movements of bank shares in the USA also sent ripples to European and Swiss bank shares. However, the sell-off in Credit Suisse shares is mainly due to many years of mismanagement and a severe lack of trust. The ultimate fate of the bank is not foreseeable for us, which is why we advise to exercise caution around the shares.

Wangs, 15.03.2023

