March 13, 2023

THIS WEEK

Silly Gone Bank

When the second and third largest bank failures in US history occur within three days of each other, it is difficult to classify the situation as anything other than a crisis.

Unlike the vast majority of US regional banks, Silicon Valley Bank (SVB) and Signature Bank catered to a few hundred private-equity backed start-ups and crypto ventures. These clients deposited the large amounts of cash received from their sponsors, meaning that 93% and 90% respectively of the two banks' deposits were above the $250 000 threshold for a federal guarantee. Rapid growth in its deposit base meant that SVB was unable to diversify its asset base via loans to clients and had to resort to buying vast quantities of fixed-income securities. Indeed, SVB ended up with the largest proportion of securities to assets among US banks.

Business has been challenging for start-ups – and even more so for crypto ventures – over the past year and some of SVB's clients had to make large withdrawals to meet their financial commitments in recent weeks. In turn, this meant that SVB had to sell a large portion of its securities – some $21bn – whose value had dropped steeply during the last year's bond bear market. This meant that the sale generated losses of around $1.8bn, forcing SVB into an unsuccessful attempt to raise fresh capital. When news of this fiasco leaked, SVB suffered a run of mass withdrawals – some $42bn in a single day – which it was unable to meet. In a few short hours last Thursday, its failure had become inevitable.

This collapse was directly linked to SVB's risk-management failure to hedge the duration risk of its Treasury holdings, that's to say their sensitivity to shifts in interest rates. Typically, a bank's treasury and risk teams can hedge this risk, via interest rate swaps for example, something SVB singularly failed to do.

Bottom Line

The crisis will serve as a reminder to (a) depositors to ensure adequate diversification of their cash (in Treasury bills, money market funds and accounts with the biggest systemic banks), and (b) shareholders to properly assess the business models and risk management capabilities of their banks. But we do not believe it portends a broader systemic crisis.

Equities	Last	%5D	%1M	%YTD
MSCI World	2 657.41	-3.6	-4.5	2.1
S&P 500	3 861.59	-4.5	-5.6	0.6
Nasdaq Composite	11 138.89	-4.7	-4.9	6.4
Russell 2000	1 772.70	-8.1	-7.6	0.7
STOXX 600	453.76	-2.3	-0.9	6.8
Euro STOXX 50	4 229.53	-1.5	0.8	11.5
SMI	10 765.26	-3.8	-3.3	0.3
Topix	2 031.58	0.6	2.2	7.4
MSCI EM	955.28	-3.3	-5.8	-0.1
China CSI 300	3 967.14	-4.0	-3.4	2.5
VIX	24.80	34.1	20.8	14.4
V2X	21.17	16.9	3.5	1.4

Fixed Income	Last	5Dbp	1Mbp	YTDbp
US 2Y	4.59	-27	7	16
US 10Y	3.70	-25	-3	-18
German 2Y	3.10	-12	34	33
German 10Y	2.51	-21	14	-6
Swiss 2Y	1.43	5	29	21
Swiss 10Y	1.34	-17	-4	-24
USD IG Spread	151	17	19	8
EUR IG Spread	129	4	10	-11
USD HY Spread	450	53	36	-19
EUR HY Spread	451	22	23	-61
EM Sovereign Spread	420	22	23	26

Currencies	Last	%5D	%1M	%YTD
Dollar index	104.58	0.1	0.9	1.0
EURUSD	1.064	0.1	-0.3	-0.6
GBPUSD	1.203	0.0	-0.3	-0.4
USDJPY	135.03	-0.6	2.8	3.0
EURCHF	0.980	-1.5	-0.6	-0.9
JPM EM FX Spot	50.25	-0.8	-0.6	0.7
USDCNY	6.917	0.2	1.5	0.3

Commodities	Last	%5D	%1M	%YTD
GSCI Spot	575.92	-3.3	-3.6	-5.6
Brent Crude Oil	82.78	-3.6	-4.2	-3.6
Gold	1 868.26	0.6	0.1	2.4
Copper	8 867.00	-1.3	0.1	5.9
Bitcoin	20 101.78	-9.6	-6.7	21.5

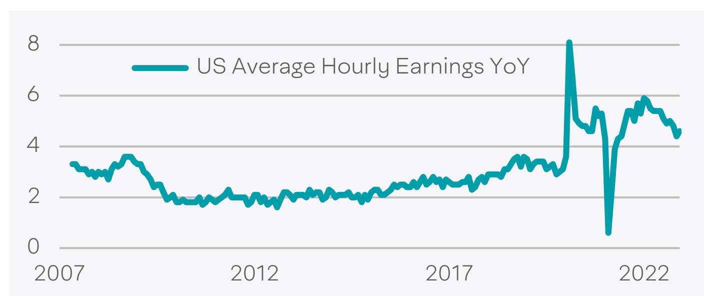
Source: Bloomberg, 10.03.2023

EQUITIES

Global . The MSCI World global equity index tumbled -3.6% last week, its fourth decline in the last five weeks, as SVB's travails pulled markets lower. This drop took the index below its 50 and 100-day moving averages (DMA) and it closed on Friday just 0.6% above the 200. If we see further weakness pull prices below the 200-DMA, the technical picture will start to look less supportive.

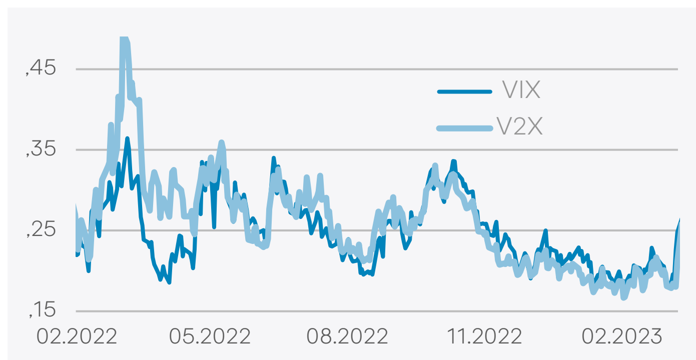
US . US stocks logically underperformed the global average last week, given the disruptions caused by the SVB crisis – the bellwether S&P500 index dropped -4.5%, leaving it up only 0.6% year-to-date. All eleven sectors lost ground last week, with most of the weakness coming in financials, materials and real estate which lost -8.9%, -7.8% and -7.0% respectively. There were some pockets of relative resilience – consumer staples shed -2.0%, utilities -2.7% and information technology was down -3.4% – but all in all it was a week to forget. Smaller capitalisation stocks were hard hit – not really a surprise given the low market cap of most regional banks – and the Russell 2000 index dropped -8.1%, while the equal-weighted version of the S&P500 shed -6.1%. The biggest drawdown came in non-profitable tech stocks – the Goldman Sachs index plummeted -12.2% last week.

US macro data continued to outperform expectations last week. For example, core durable goods orders – ex-defence and aircraft – rose a strong 1.1% month-on-month (MoM) in January. And the job market continues to surprise with its resilience. January's JOLTS survey of job openings reported 10.8m jobs on offer, which leaves the openings-to-applicants ratio at a historically high 1.9. This trend was confirmed by Friday's non-farm payrolls which reported 311 000 new jobs created in February, well above expectations. The participation rate in the job market ticked higher, an encouraging sign, as did the year-on-year YoY) growth in average hourly earnings, from 4.4% to 4.6%.



Source: Bloomberg

The heavy falls last week took the S&P500 index back below its 200-DMA for the first time since January 19. A rapid reversal of this move would improve the technical picture, especially now the 100-DMA has broken above the 200. On the other hand, a break below 3800 points would invalidate the pattern of higher highs and higher lows which began last October Unsurprisingly, the main implied volatility indices shot higher last week – also known as the "fear" indices, these measure the cost of option protection, which soars in times of trouble. The US VIX jumped a massive 34.1% last week, its biggest weekly gain since January 2022, while Europe's V2X index also rose a more modest 16.9%.

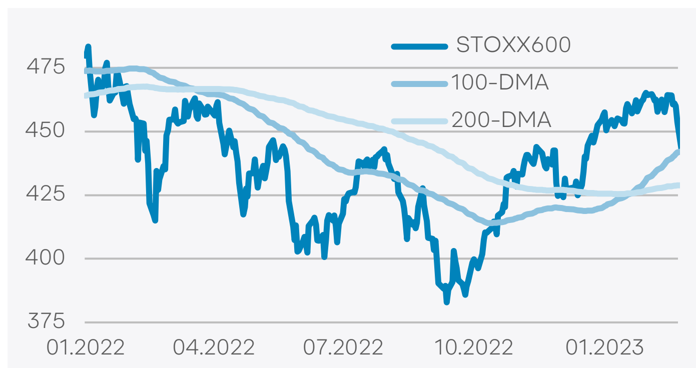


Source: Bloomberg

Europe . European equities outperformed again last week. The Euro STOXX 50 (which covers the largest companies in the Eurozone) fell -1.5% while the STOXX 600 (a pan-European index which also covers non-euro markets like the UK and Switzerland) shed -2.3% over the week. Within the region, there were pockets of resilience in Portugal, which only lost -0.7%, and Germany which dropped -1.0%. Among the laggards, we find Nordic markets like Sweden and Norway – -4.7% and -4.8% respectively – while Greece plunged -6.0%. At the pan-European sector level, the relative bright spots were defensive areas like utilities and communication services which only lost -0.1% and -0.5%, whereas real estate and materials brought up the rear, dropping -7.4% and -4.6% respectively (all figures in euros).

The general tone of Eurozone macro data remains positive, although the number of positive surprises has fallen from recent highs – Citi's economic surprise index ended last week at 59.4 points, still solidly in positive territory, but well down on early February's 100.1 points. Italian retail sales in January rose 6.2% YoY while German industrial production jumped 3.4% MoM, the biggest monthly increase since June 2020. However, price pressures remain problematic, even in Switzerland where January consumer prices rose 3.4%, just below last August's 30-year high.

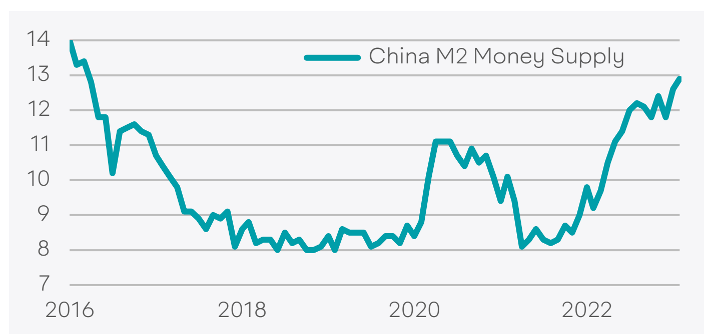
The technical picture for the pan-European STOXX600 index continues to look supportive with all major moving averages – the 50, 100 and 200-DMA – trending upwards. Last week, we called a period of consolidation which appears to have begun with the index dipping below the 50-DMA. However, it remains 5.8% above the 200-DMA and could correct further without invalidating the bullish chart configuration.



Source: Bloomberg

WOOD MAN.

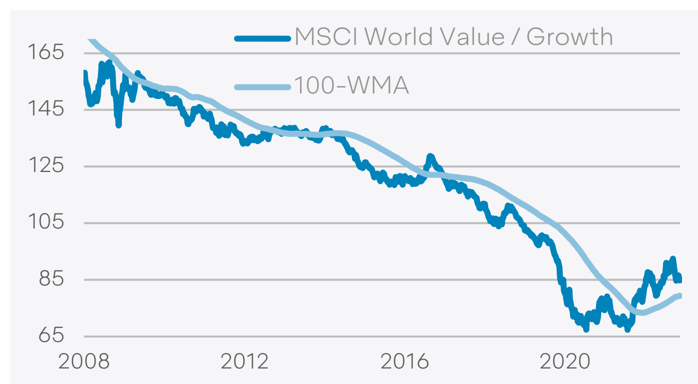
Asia . China appears to be the only major economy not to suffer inflationary pressures – February's consumer price index (CPI) rose only 1.0% YoY, less than half of January's 2.1%. The unexpected drop was due in part to lower energy prices, which should recover once the pace of reopening after last year's lockdowns accelerates. On the other hand, money supply data look supportive – the growth in the broad aggregate M2 rose 12.9% in February, the fastest pace since March 2016. Moreover, new renminbi loans in February came in 20.7% above forecasts. The National People's Congress has now rubber-stamped the new political leadership team – last Friday Xi Jinping was confirmed for his third five-year presidential term while his number two, Li Qiang – not to be confused with his predecessor Li Keqiang – was appointed prime minister on Saturday.



Source: Bloomberg

Japan was the only market we follow to gain ground last week, gaining 1.2%. Elsewhere in Asia, Thailand, Taiwan and India were relatively resilient, shedding only -1.4%, -1.6% and -1.8% respectively. The laggards were all China-sensitive – Hong Kong lost -6.4% and Australia, China's biggest commodity supplier, -4.4% while China itself dropped -4.5% (all figures in euro terms).

Style factors . Last week, Growth stocks outperformed Value for the seventh time in nine weeks. The MSCI World Value index fell -4.1% while Growth dropped -3.2% on the week. All major factors lost ground last week – Quality dropped -2.8% while Momentum and High Dividend Yield both shed -2.6%. The biggest loser so far this year is Momentum (-3.3%) which comes as no surprise given the switchback ride we've seen, with global stocks up 7.0% in January, down -2.5% in February and -2.8% already in March.



Source: Bloomberg

Bottom Line

We have readjusted equity exposure to the low end of neutral territory.

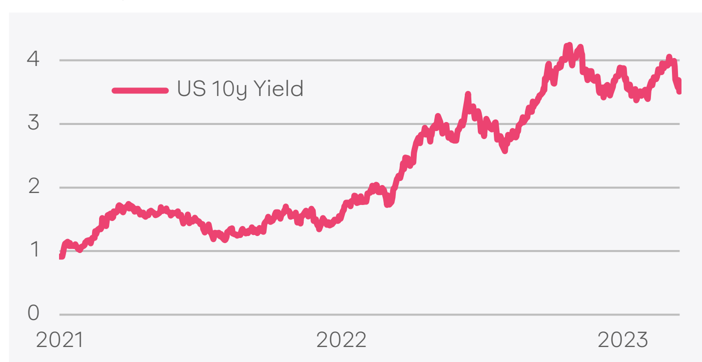
WOOD MAN.

FIXED INCOME

After the news about SVB and Signature Bank unfolded last week, there was a rapid reassessment of the likelihood of further tightening by central banks and bond yields collapsed as their prices soared (bond yields move inversely to their prices). The Bloomberg Global Aggregate Index – a proxy for diversified high quality bonds – jumped 1.3% for the week, taking it back into positive territory for the year to date. This rally took the index back above the 100-DMA which is in the process of breaking through the 200. If the index manages to break through the 50-DMA and stay there, the technical picture could turn more supportive.

US. Market consensus – which we shared – was that the key drivers last week would be Federal Reserve (Fed) chair Jerome Powell's testimony to Congress and Friday's jobs data. Important though they were, these drivers were completely eclipsed by the spectacular failures of SVB and Signature Bank (see page 1). Ten-year (10y) Treasury bond yields collapsed from 4.01% on Wednesday to a low of 3.42% on Friday. The fall in 2y yields was even more dramatic – from 5.06% to 3.82% – as traders swung from expecting 110bp more rate hikes this year, including 50bp next week, to pricing in four rate cuts by the end of the year.

Of course, if the SVB implosion leads to a full-blown systemic banking crisis, extraordinary easing measures would become necessary, but that is not our core scenario. Indeed, on the basis of the non-farm payroll data and continued rise in average hourly earnings, Powell's hawkish message that a faster pace of tightening to "higher than previously anticipated" rates sounded credible.

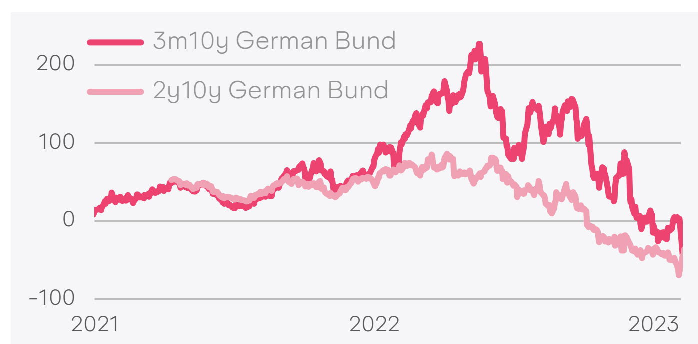


Source: Bloomberg

The authorities worked hard over the weekend to shore up confidence in the banking system. The Federal Deposit Insurance Corporation announced that all uninsured deposits at SVB and Signature will be "fully protected" while the Fed launched a new Bank Term Funding Program. The BTFP will accept bonds as collateral at par value – rather than at current marked-down prices – in exchange for loans to banks of up to one year, to enable them to meet requests for withdrawals. If, as we expect, these measures succeed in shoring up confidence in the banking system, the Fed might well push ahead with a 25bp hike at its meeting next Wednesday.

Europe. German 10y yields followed their US counterparts lower last week, from 2.65% mid-week to lows of 2.17% on Friday, as did 2y yields which plummeted from 3.38% to 2.43%. These falls are rather overdone in our view. The European banking system has a different regulatory framework which involves strict stress tests of potential mismatches between liabilities and assets. Moreover, the Eurozone suffers higher inflationary pressures currently than the US and the European Central Bank (ECB) remains well behind the Fed in its tightening cycle. We still expect the ECB to hike its deposit rate, probably by 50bp, at its meeting this Thursday.

Nonetheless, 3m German yields followed the rest of the yield curve lower, shedding -11bp last week versus -21bp for the 10y, which pushed the 3m10y spread back into negative territory as shown on the chart below. We still expect 3m yields to rise as they track the ECB's hiking plans – they currently stand at 2.56% and ECB deposit rates are likely to end this week at 3.0%.



Source: Bloomberg

When worries about a banking crisis roil markets, the Italian bond market often suffers, given the high levels of non-performing loans on banks' balance sheets. That wasn't the case last week – 10y Italian BTP yields fell in parallel with German Bund yields, leaving the spread between the two unchanged at 181bp.

Credit markets. In recent months, our stance on credit markets has been cautious – credit spreads, the difference in yields between corporate and sovereign bonds, having been tightening leaving insufficient additional yield to compensate for the higher risk. Last week proved to be a case in point – for example, the spread of Eurozone high yield (HY) credit over Bund yields rose 22bp, more than cancelling out the -21bp drop in Bund yields. And US HY spreads rose 53bp, the sharpest weekly rise since last July. Emerging market sovereign bond spreads followed the risk-off trend last week, jumping 22bp to 4.20% the highest level since last November.

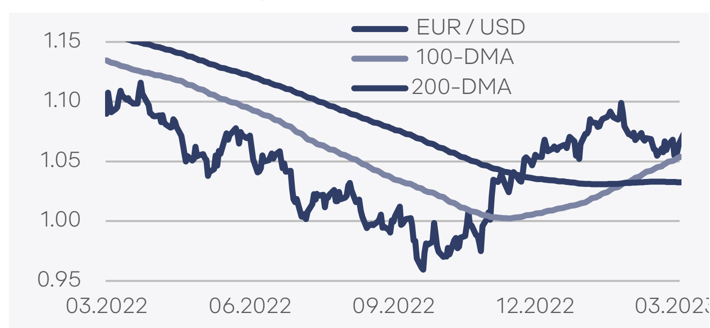
Bottom Line
Overall, we remain defensive in our fixed income allocations.

WOOD MAN.

CURRENCIES

In risk-off markets, the dollar index – which measures its value against its six major trading partners among advanced economies – typically rallies as investors rush back to the safety of the Us financial system. However, that avenue was closed off last week given fears of a banking crisis and the index only managed a modest 0.1% advance. The index now sits -1.9% below its 100 and 200-DMA, which has begun to flatline and should offer some resistance to any rally attempts.

EUR . The euro proved remarkably resilient last week, rising 0.1% against the US dollar, its third gain in the past four weeks. Moreover, the technical picture offers some comfort. The 200-DMA has begun to edge higher over the past month and the 100 is in a solid uptrend. However, the 50-DMA sits just above the current spot rate and could offer some resistance to further gains.



Source: Bloomberg

GBP . This week will see UK Chancellor Jeremy Hunt deliver his spring budget statement. He has the unenviable task of attempting to boost the UK's lacklustre growth prospects while persuading markets that the country remains fiscally responsible. He will certainly shy away from the type of unfunded tax cuts which sank Liz Truss's short-lived premiership last October. As a result, he has little room to do anything to address the UK's structural economic weaknesses. Sterling continues to look one of the weaker G7 currencies.

CNY . The Chinese renminbi fell -0.2% against the US dollar last week, its sixth weekly loss in seven weeks. This weakness comes despite China's low inflation rate and the recent surge in money supply (see page 3). We still expect the CNY to find some technical support around current levels, which is where the cross-rate stabilised in December, sandwiched between the strong renminbi rallies in November and January.

JPY . As we expected, Governor Kuroda's last policy meeting in charge at the Bank of Japan brought no change in policy. It will be up to his successor, Kazuo Ueda, to begin the shift away from today's ultra-accommodative policy. Nonetheless, the yen managed to rise 0.6% against the US dollar, its second consecutive weekly advance, having bounced off the 200-DMA and broken above the 100.

COMMODITIES

GSCI . Another negative week for commodity prices on the back of general risk-off sentiment in markets. The GSCI spot commodity index dropped -3.3% last week, its fifth loss in the last seven weeks. With all major DMAs continuing to trend lower, the technical picture still suggests that rally attempts will meet stiff resistance. Yet again, the index touched the 570-point level last Thursday, the fifth time it has done so since December. If no convincing rally is forthcoming, further downside could beckon.

Energy . Energy prices fell -4.8% higher last week, led by US natural gas which dropped -19.2%. Brent crude prices lost -3.3% over the week, having failed the fifth attempt since last summer to break above the 100-DMA. Brent has traded in a tight range between $77 and $87 per barrel since December and closed last week towards the middle of the range. The recent pattern of lower highs and higher lows has formed a triangle – the next break-out, either upwards or downwards, is likely to set the trend for Q2.

US commercial crude oil inventories fell last week, for the first time in the last eleven weeks, although that failed to provide any support to crude prices. Traders appear to have ignored the inventory build in recent weeks, putting it down to a combination of a spell of warmer-than-expected weather and some commercial restocking to compensate for the dramatic reduction in the US Strategic Petroleum Reserve over the past year. The SPR cut may have left commercial players nervous that total inventories – which stand close to 20-year lows – have fallen too far and need replenishing. However, China's unveiling of a modest 5.0% growth target for 2023 led traders to question whether reopening will provide the hoped-for boost to demand.

European natural gas prices soared 18.0% last week, their biggest weekly rise since last August. The previous week, prices hit their lowest level since August 2021 so we would not read too much into this rally. As we've often emphasised, reduced demand and abundant stocks – currently around twice the normal level for this time of year – are a recipe for low gas prices.

Metals . Industrial metal prices fell -3.0% last week, the fifth decline in six weeks, on some disappointment about China's growth target. Nickel was again the weak link – prices fell -7.8% last week, taking them down -24.5% since the start of the year. At the other extreme, iron ore gained 0.8% in dollar terms on the Dalian exchange, its fifth consecutive weekly advance – prices are now up 7.9% since end-2022. The other industrial metals were generally weak – copper fell -1.3%, aluminium -3.8% while zinc dropped -4.6%. Gold, on the other hand, had a better week – lower rate expectations often favour non-interest-bearing assets like gold, which gained 0.6% last week.

Bottom Line
With China reopening set to boost raw material demand, we have decided to keep commodities at Overweight.

AGENDA

Tuesday March 14th . EU Economic and Financial Affairs Council (Ecofin) meeting of finance ministers. **US** February consumer price index (CPI). **UK** January unemployment rate.

Wednesday March 15h . UK Chancellor Jeremy Hunt to present spring budget. **China** February industrial production and retail sales. **France** final February CPI. **Eurozone** January industrial production. **US** February retail sales and producer price index (PPI).

Thursday March 16th . Eurozone European Central Bank monetary policy meeting. **Japan** February trade balance, January industrial production.

Friday March 17th . OECD interim global economic outlook. **US** February industrial production, March University of Michigan consumer sentiment survey. **Eurozone** February CPI.

Proprietary information
This document is issued by Woodman Asset Management AG (the "Company"), which is authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA). It is strictly confidential and is solely provided for information purposes. Unless otherwise stated, all information, and any other content contained on this document are the Company's exclusive property and may not be copied, amended or distributed without prior express written consent. Information, opinions and estimates expressed in this document reflect a judgment at its original date of publication and are subject to change without notice, thus the Company reserves the right to modify or update the content or terms of this document without prior notice.

No offer and no advice
This document and its content should not be construed as an offer, invitation, solicitation or recommendation to make any transactions in investment instruments or financial services. It does not constitute financial, legal, accounting, business, tax or other professional advice. In particular, it has not been drawn up for tax purposes. The Company invites anyone to contact a trusted advisor before making any decision based on this document.

Limitation of access and local legal and regulatory restrictions
This document and its contents should not be distributed to individuals or legal entities in any jurisdiction (in terms of residence, nationality, headquarters, domicile, or any other reason), where the provision of such information would not comply with applicable laws and regulations.

Accuracy and currency of information
This valuation is based on third party quotation services or information sources usually used by the Company. The prices are believed to be reliable but have not been independently verified. These prices do not necessarily reflect the actual terms at which new transactions could be entered into or at which existing transactions could be liquidated or unwound. The Company accepts no liability as to any differences between the prices shown and the current market value. Furthermore, the Company has no means to assess the market value of securities which are not negotiable on a recognised market and as a consequence the value of such securities may be based on the purchase price, a nominal value or zero. The Company further relies on third party information sources on prices for products, which may differ from the prices indicated by other third party information sources or the ones indicated in bank statements.

Risk warnings
Performance data is purely indicative. In particular, back dated transactions or the late delivery of prices may substantially modify the basis or performance calculations from one period to the next. All investments risk the loss of capital, and their value may fluctuate. No investment strategy is without risk and markets influence investment performance. Investment in the products and services is intended only for those investors who can accept the risks associated with such an investment (including the risk of a complete loss of investment).
Past performance should be construed neither as a guarantee nor even as an indicator for future performance.

This document does not represent a complete statement of risk factors associated with an investment in any of the products.

No liability
The Company makes no guarantees, representations or warranties of any kind and accepts no responsibility or liability as to its accuracy or completeness. Moreover, the Company expressly disclaims all responsibility for any direct, indirect, incidental, consequential or any other loss or damage arising out of its provision or use of any information contained herein.

The recipient of this document (the "Recipient") is aware that the information and content of this document may be limited to a specified type of investor and may be exclusively intended for professional and institutional investors (within the meaning of art. 4 paragraphs 3-5 and art. 5 paragraph 1 and 3-4 of the Financial Services Act ("FinSA") as well as art. 10 paragraph 3, 3ter of the Swiss Collective Investment Schemes Act ("CISA")).

The Recipient declares that he or she has read and approved the terms of use and legal notices as explained above.