

Global Banking Crisis: Does it impact the stock markets fully yet?

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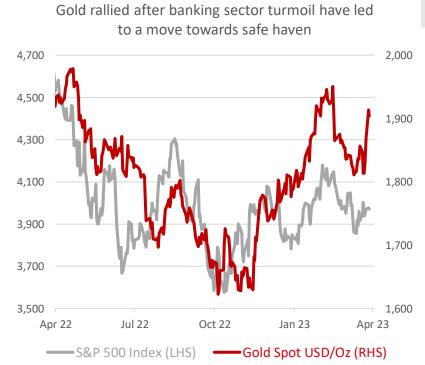
The summary and impact of a major news event

How did it happen?

The global markets were hit by an unexpected tidal wave in the form of a banking crisis, bringing back ominous memories of the 2008 financial crisis.^{1,2} Banks such as the Silicon Valley Bank, Signature Bank, First Republic Bank, Credit Suisse, and Deutsche Bank faced a decline in stock prices in March this year. The crisis was exacerbated by the coordinated efforts of global central bankers in 2022, who aggressively hiked interest rates to combat multi-year high inflationary concerns.³ However, this had an indirect effect on economic activity, as short-term interest rate hikes increased the cost of credit throughout the financial system.^{4,9} Additionally, interest rates and bond prices have an inverse relationship, leading to bond prices hitting multi-year lows.⁵ Some banks were forced to sell securities at a loss to meet aggressive cash calls.⁶ The bank liquidity needs become a major concern for investors, resulting in an enormous bank run situation where depositors withdrew a large amount of money.^{7,8} In such a challenging environment, certain banks were simply unable to meet the liquidity demands.^{7,8}

How the central banks reacted?

The failure of banks led to emergency measures by the financial and monetary authorities, who feared a wider bank run affecting at least half a dozen regional banks. Tentatively, the risks of a wider bank run in the United States and Europe appeared to have subsided. In the US, the Fed and the FDIC have intervened with Silicon Valley Bank, Signature Bank and First Republic Bank to give implicit coverage to all uninsured depositors and established a new and potentially large line of credit for banks carrying losses on their bond portfolios. In Europe, UBS Group agreed to buy troubled Credit Suisse for CHF 3 billion (US\$3.2 billion) in an all-stock deal brokered by the government.



How did the market react?

More financial cracks may potentially emerge as Federal Reserve forged ahead with further interest rate hikes before the financial system stabilises. 11,16 During times of financial instability, some investors move their money to safe havens such as gold, which has seen a spike in value since the beginning of Mar 2023.¹² Despite the financial turmoil, bank shares rallied after regulators worldwide rushed to shore up market confidence and spur a potentially slower pace of tightening from major central banks.¹³ To a certain extent, the market feels the turmoil is not systemic yet and there are ongoing solutions being implemented to contain the damage. 14,15

Source: Bloomberg, extracted 28 Mar 2023



Looking at the fundamentals

Here are the banking stocks listed in the US that have the lower Loan-to-deposit Ratio. Banks with lower loan book in their deposit base is likely to have available reserves for unforeseen fund contingencies

Ticker	Name	Market Cap	Price	Loan-to- Deposit Ratio	Analysts Consensus 12M Target Price	Upside from Analyst Consensus (%)
CFR US	CULLEN/FROST BANKERS INC	6.64B	103.10	39.03%	142.25	37.97%
JPM US	JPMORGAN CHASE & CO	379.34B	128.88	48.53%	155.85	20.93%
C US	CITIGROUP INC	88.02B	45.22	52.08%	55.94	23.71%
BAC US	BANK OF AMERICA CORP	225.07B	28.12	54.53%	39.53	40.58%
CBSH US	COMMERCE BANCSHARES INC	7.30B	58.52	62.27%	67.48	15.32%
BOKF US	BOK FINANCIAL CORPORATION	5.69B	85.18	65.64%	107.75	26.50%
PB US	PROSPERITY BANCSHARES INC	5.67B	62.15	66.03%	77.85	25.26%
WFC US	WELLS FARGO & CO	140.43B	37.18	69.58%	52.84	42.12%
RF US	REGIONS FINANCIAL CORP	17.11B	18.31	73.90%	24.79	35.39%
NU US	NU HOLDINGS LTD/CAYMAN ISL-A	20.39B	4.36	74.13%	7.08	62.35%

Here are the banking stocks listed in the US that have the highest Common Equity Tier 1 Ratio. Banks with high CET1 Ratio may have enough ability to withstand financial distress

Ticker	Name	Market Cap	Price	CET1 Ratio	Analysts Consensus 12M Target Price	Upside from Analyst Consensus (%)
PB US	PROSPERITY BANCSHARES INC	5.67B	62.15	15.88%	77.85	25.26%
JPM US	JPMORGAN CHASE & CO	379.34B	128.88	13.20%	155.85	20.93%
C US	CITIGROUP INC	88.02B	45.22	13.03%	55.94	23.71%
CFR US	CULLEN/FROST BANKERS INC	6.64B	103.10	12.85%	142.25	37.97%
EWBC US	EAST WEST BANCORP INC	7.95B	56.37	12.70%	81.25	44.14%
BAP US	CREDICORP LTD	10.45B	131.44	12.59%	159.80	21.57%
BOKF US	BOK FINANCIAL CORPORATION	5.69B	85.18	11.69%	107.75	26.50%
SSB US	SOUTHSTATE CORP	5.54B	73.02	11.24%	91.00	24.62%
BAC US	BANK OF AMERICA CORP	225.07B	28.12	11.20%	39.53	40.58%
WBS US	WEBSTER FINANCIAL CORP	6.86B	39.27	10.71%	61.79	57.35%

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